

**27 November 2001**

**2001 PRE-BUDGET REPORT PRESS NOTICES**

**HM TREASURY**

HMT 1                    The Pre-Budget Report: Building a stronger, fairer Britain  
in an uncertain world

HMT 2                Protecting the environment, today and for the future

**INLAND REVENUE AND HM TREASURY**

REV/HMT 1            Income tax allowances and national insurance  
contributions

REV/HMT 2            Enterprise in disadvantaged communities

REV/HMT 3            Enterprise and innovation – the key to a modern  
business environment

**INLAND REVENUE AND CUSTOMS AND EXCISE**

REV/C&E 1            Boosting investment and growth for small businesses

**CUSTOMS AND EXCISE**

C&E 1                Tackling fraud and smuggling HMT 1

## **HMT 1**

**27 November 2001**

### **BUILDING A STRONGER, FAIRER BRITAIN IN AN UNCERTAIN WORLD**

The Pre-Budget Report, published by the Chancellor of the Exchequer, Gordon Brown, today sets out how the Government aims to meet the global economic challenges facing Britain, and, based on a foundation of stability and growth, build a stronger, fairer Britain even in an uncertain world.

Building a stronger, fairer Britain in an uncertain world reports that the British economy is forecast to sustain steady and stable growth with low inflation and sound public finances. The UK is forecast to grow by 2¼ per cent this year, within the Budget 2001 forecast range of 2¼ to 2¾ per cent. The fiscal projections show that the Government is firmly on track to meet the fiscal rules over the economic cycle, including in the cautious case.

The Chancellor will be consulting on the issues and proposals outlined in this Pre-Budget Report in the run up to the 2002 Budget.

Key Pre-Budget Report announcements include:

- a package of measures to raise productivity by promoting enterprise and skills, including proposals to give lower skilled working people greater access to training and tax incentives to boost research and development and investment in disadvantaged areas;
- further steps to make work pay and deliver rising employment, by extending the New Deal and through legislating for a new Working Tax Credit from 2003 that will extend the principle of the Working Families' Tax Credit to reward the work of people on low incomes whether or not they have children;
- a further package of support for pensioners, including:
  - a new Pension Credit which starts to benefit 5.4 million pensioners from 2003;
  - the winter fuel payment at £200 each year for this entire Parliament; and
  - a guaranteed minimum increase of £100 for single pensioners and £160 for pensioner couples in 2003-04 in the annual level of the basic state pension.

- further steps to support families and tackle child poverty, through legislating for a new Child Tax Credit from 2003, built on the foundation of universal Child Benefit, bringing together the support for children currently provided through the child elements of the Working Families' Tax Credit, the Disabled Persons' Tax Credit, Income Support/Job Seeker's Allowance, as well as the existing Children's Tax Credit;
- an extra £1 billion for the NHS next year from reallocating resources from lower debt interest payments. Health spending in the coming year will now rise by 10 per cent in cash terms, 7 per cent in real terms;
- publication of the interim report of the Wanless Review into long-term funding of the NHS; and
- to protect the environment the Government will be extending enhanced capital allowances (ECAs) to encourage investment targeted at a wider range of environmental objectives, including further energy-saving technologies, cleaner fuels and vehicles, reducing demand for water and improving water quality.

## **MAINTAINING ECONOMIC STABILITY**

These are testing times for Britain and the global economy, with the tragic events in America having an impact on every economy around the world. The world economy has slowed more sharply this year than at any time over the past two decades.

No country can insulate itself from world economic events. But as a result of the tough decisions the Government has taken, and the platform of stability it has created, the British economy enters these testing times with low inflation and the public finances under control, making the UK better placed to steer a course of economic stability.

The updated projections in the Pre-Budget Report show that:

- the economy is forecast to grow by 2¼ per cent this year – the fastest rate of growth in the G7. Growth is expected to be between 2-2½ per cent next year and between 2¾ and 3¼ per cent in 2003 as global growth recovers; and
- the Government is firmly on track to meet its two strict fiscal rules over the economic cycle. The improvements in the public finances in the past 4½ years mean that fiscal policy is able to support monetary policy this year and next in maintaining economic stability.

## **MEETING THE PRODUCTIVITY CHALLENGE**

Improving productivity performance is vital for long-term prosperity. In testing times, it is more important than ever that Britain achieves faster productivity growth than its major competitors, closing the productivity gap that exists between Britain and many other advanced industrial countries and delivering rising living standards for all.

The productivity challenge is one which must be met through a sustained effort across the economy as a whole. Because closing the productivity gap requires a broader effort from employers and employees, as well as from government, the Pre-Budget Report welcomes progress made by the CBI and TUC in working together to identify a range of key areas for action.

The Pre-Budget Report describes the steps the Government is now taking to support the drivers of productivity growth – strengthening competition, innovation, investment, enterprise and skills in every community and region across the country:

- taking further steps to build a modern, pro-enterprise business tax system, including by improving the capital gains tax business assets taper, and publishing draft legislation for an exemption for capital gains and losses on substantial shareholdings and a new regime for providing relief to companies for the costs of intellectual property, goodwill and other intangible assets; (see press notice REV/HMT 3 for further details);
- planning to introduce a volume-based research and development (R&D) tax credit for large companies in Budget 2002. The Government will consult further on details of the credit shortly (see press notice REV/HMT 3 for further details);
- enhancing Enterprise Management Incentives (EMI) to help smaller companies attract the top level employees they need to maximise growth. The Government is now introducing measures to double the gross asset limit for qualifying companies to £30 million. A Statutory Instrument will be laid before Parliament immediately, to take effect from 1 January 2002 (see press notice REV/C&E 1 for further details);
- publishing next month a Green Paper on planning reform following the most comprehensive review of the land use planning system in the past 50 years. It will make proposals to improve the speed, flexibility and responsiveness of the planning system;
- introducing a package of measures to support enterprise and encourage growth among small business, improving access to finance, reducing the burden of VAT on small companies and publishing an independent review of payroll administration (see press notice REV/C&E 1 for further details);
- introducing a package of measures to promote enterprise and investment in Britain's most disadvantaged communities (see press notice REV/HMT 2 for further details);
- following Lord Rogers' report on revitalising towns and cities, the Government is introducing an exemption from stamp duty for all property transfers up to £150,000 in disadvantaged areas from 30 November 2001;

- setting out further details of the proposed Community Investment Tax Credit (CITC) to encourage private investment by enterprises in under-invested communities. Following a period of consultation, the Government is announcing that the overall cap on the amount of tax credits that can be awarded in any year will be removed;
- confirming details of a radical programme of further enhancements to the overall competition regime, including modernisation of the regimes for investigating mergers and markets, and criminal penalties for individuals engaging in hard-core cartels;
- publishing Productivity in the UK: 3 – the Regional Dimension, setting out a new analysis of Britain's regional productivity challenge; and
- setting out the emerging areas for action identified by Sir Gareth Roberts in his review of the supply of scientists and engineers, aimed at strengthening the UK's science base and encouraging R&D and innovation.

In Budget 2001 the Government stated that a voluntary approach to workforce training was not enough to tackle the "chronic UK problem of low skilled adults". To make a significant difference in the number of people without basic and level 2 skills, and allow the UK to close the skills gap with its competitors, requires a new training policy that ensures the Government, employers and individuals all meet their responsibilities in this area.

Budget 2001 stated the Government was willing to consider possible fiscal measures, including a new tax credit. The Performance and Innovation Unit report on workforce development, published today, also sets out a range of options to overcome barriers to training, including a statutory right to time off for training and development.

In the Pre-Budget Report, the Government says it will now examine an approach based on four complementary, linked elements which would require commitments by stakeholders - the Government, employers and individuals. These are: financial support for employers whose staff take time off; free learning provision for employees; and entitlement to take-up training and extended guidance and support

To identify the most effective and efficient way forward, different pilots will test a number of elements:

- the level of financial support needed to compensate employers for the time their employees spend on training. Different pilots will offer compensation of 100% of wage costs or more for small employers, with less than 100% for the largest employers;
- the amount of time low-skilled employees would be entitled to devote to training on full pay. The pilots will test periods of between 35 and 70 hours of paid time off each year;
- incentives and rewards for successful completion of courses; and

- levels of subsidy up to 100% for courses and accreditation costs.

£40 million has been allocated to undertake these pilots from September 2002. Chapter three of the Pre-Budget Report sets out in detail the Government's new approach.

## **INCREASING EMPLOYMENT OPPORTUNITY FOR ALL**

With the help of the New Deals, the Government has made significant progress in tackling structural weaknesses and improving the underlying strength of Britain's labour market.

Since 1997, long-term unemployment for those 25 and over has been cut by 70 per cent and long-term youth unemployment has been cut by 75 per cent. Help has been extended to lone parents, disabled people and other disadvantaged groups. Britain now has a strong base from which to face testing economic times.

The Government is determined to advance its goal of having a greater proportion of people in work than ever before by the end of the decade. It is working to achieve this by helping people move from welfare to work, easing the return to work, and making work pay. The Pre-Budget Report describes the steps now being taken to:

- tackle economic inactivity in the labour market, ensuring that all working age benefit recipients are given work-focused support via a new organisation, Jobcentre Plus, which will radically change the way in which the Government helps working age citizens. A new paper, *The Changing Welfare State: employment opportunity for All*, examining labour market inactivity in detail, will be published tomorrow; and
- pilot transitional employment opportunities, to improve support for communities with concentrations of long-term unemployment and strengthen the Job Transition Service for people affected by large-scale redundancies. The Secretary of State for Work and Pensions will announce details tomorrow.

The Government has also put in place a series of reforms to ensure that work pays more than welfare at all levels of the labour market, through:

- the introduction of the 10p rate of tax and the widening of the band, and reducing the main rate of tax to 22p;
- reforms to national insurance contributions so that fewer people on low incomes now pay and removing the unfair "entry fee"; and
- the introduction of the Working Families' Tax Credit which is helping to make work pay for nearly 1.3 million families.

The Pre-Budget Report describes how the Government is now building on these measures by introducing a new Working Tax Credit from 2003, to reward the work of people on low incomes, whether or not they have children.

The Working Tax Credit is designed to tackle poor work incentives and persistent poverty among working people and will be complemented by a new tax credit for families with children (see below). The rates and thresholds for the Working Tax Credit will be set in Budget 2002.

## **FAIRNESS FOR FAMILIES AND COMMUNITIES**

The Government is committed to building a fairer and more inclusive society in which everyone can benefit from rising prosperity.

The Pre-Budget Report sets out the next stage of the Government's reforms: tackling child poverty, providing security in old age, rewarding saving and creating a fair and efficient tax system.

### **Supporting families and tackling child poverty**

The Government is determined to step up its efforts to tackle child poverty, supporting all families with children in recognition of the costs and responsibilities that come with parenthood. Even in difficult economic times, it is determined to meet its goal to halve child poverty in 10 years and abolish it within a generation.

As a result of the Government's personal tax and benefit reforms since 1997:

there are now 1.2 million fewer children in relative poverty than there would otherwise have been;

- families with children are, on average, £1,000 a year better off;
- a family on average earnings of £25,400 a year with two children is £520 a year better off and has the lowest direct tax burden since 1972; and
- a family on half average earnings of £12,700 a year with two young children is £3,000 a year better off.

The Pre-Budget Report describes how the Government is making further progress by introducing a new Child Tax Credit from 2003, built on the foundation of universal Child Benefit. The new Child Tax Credit marks another step forward in tax and benefit integration, creating for the first time a seamless system of income-related support for families with children. It will be complemented by the new tax credit for work – the Working Tax Credit. Decisions on rates for the Child Tax Credit will be made in Budget 2002.

## **Fairness for pensioners**

Over the past 20 years, the gap between the incomes of rich and poor pensioners has grown dramatically. The Government is committed to developing sustainable policies which tackle pensioner poverty and which enable pensioners to share in the country's rising prosperity.

The first priority has been to help those most in need. Around 2 million pensioners now benefit from the extra support the Government introduced through the Minimum Income Guarantee (MIG) which will be uprated in line with earnings throughout this Parliament.

This Pre-Budget Report outlines the next steps in the Government's strategy to tackle pensioner poverty by:

- introducing a new Pension Credit from 2003 to tackle the unfairness and complexities of the old system and ensure that pensioners on low and modest incomes are rewarded, rather than penalised, for their savings;
- guaranteeing that the annual basic state pension will rise by £100 for a single pensioner and £160 for pensioner couples in 2003-04. Subsequently the basic state pension will rise each year by 2.5 per cent or the increase in the September Retail Price Index, whichever is higher. This builds on the increases in 2001-02 and 2002-03 that benefited single pensioners by £4.55 above prices; and
- maintaining the winter fuel payment – paid annually to around 8 million households - at £200 for the remainder of this Parliament.

The Pension Credit will deliver substantial gains to all pensioners on low and modest incomes. Around half of all pensioner households stand to gain. The new Credit will:

- guarantee a minimum income for pensioners;
- reward saving for retirement;
- revise the MIG capital regime;
- abolish the weekly means-test; and
- protect the position of people on Housing Benefit and Council Tax Benefit.

The Secretary of State for Work and Pensions will publish details of the Pension Credit tomorrow.

## **Supporting saving**

Savings provide people with independence, long-term opportunity, comfort in retirement and security if things go wrong.

In April 2001, the Government published a consultation document on two new proposals to extend the benefits of saving and asset-ownership - the Saving Gateway and the Child Trust Fund. The Saving Gateway would be an account targeted at low-income individuals, providing a Government-funded match for all money saved, up to a limit. The Child Trust Fund is a proposal for a universal account, with an endowment paid to all children at birth and ages 5, 11 and 16, with children from the poorest families receiving the most help.

Responses to the consultation have been overwhelmingly positive and the Government is now:

- launching a number of Saving Gateway pilot projects to assess how best to make the Saving Gateway work; and
- publishing a follow up report, *Delivering Saving and Assets*, presenting detailed results from the initial consultation and presenting options for these policies for further consultation.

## **A modern and fair tax system**

To continue to build a modern and fair tax system, the Government is:

- replacing the current 17.5 per cent duty on pools betting with a 15 per cent tax on pools companies' gross profits, as a result of which the major football pools companies have agreed to extend their funding of sports and the arts for a further two years;
- announcing results from the first year of its Tackling Tobacco Smuggling strategy, showing that the Government is on track to achieve its target of stopping and then reversing the growth in tobacco smuggling by 2003 and has secured a 76 per cent reduction in the revenue lost from cross-Channel smuggling of alcohol and tobacco (see press notice C&E1 for further details); and
- launching shortly a new consultation on measures to provide tax relief to support community amateur sports clubs that make a positive contribution to their local communities.

## **DELIVERING STRONG PUBLIC SERVICES**

By maintaining stability and building a stronger economy, the Government is laying the foundations for sustainable increases in investment to deliver world class public services.

Built on the foundation of prudence and stability, the Government is increasing spending on public services by £50 billion in 2003-04 compared with 2000-01. 75 per cent of this increase will be spent on the Government's priorities of health, education, transport, housing and law and order. Between 2000-01 and 2003-04, in real terms:

- education spending will grow by an average of 5.6% each year;
- health spending will grow by an average of 5.7% each year; and
- transport spending will grow by an average of 14% each year.

The Government is currently considering future priorities and investment as part of the 2002 Spending Review. The Pre-Budget Report describes the Government's priorities for the review, including:

- continuing to raise standards and improve outcomes in education and skills, as the foundation of a modern, competitive economy;
- improving national healthcare for all. Budget 2001 announced that Derek Wanless, former Group Chief Executive of NatWest Bank, would undertake a review of the technological, demographic and medical trends over the next two decades that may affect the health service in the UK as a whole. Following widespread consultation, an interim report is now being published;
- providing an additional £1 billion to the National Health Service in 2002-03 by reallocating resources from lower debt interest payments;
- ensuring that transport receives the long-term investment needed to meet the plans and targets set out in the Transport 10 Year Plan; and
- raising the performance of police forces in return for investment, and tackling the causes of crime.

## **PROTECTING THE ENVIRONMENT**

Sustainable development is vital to ensure a better quality of life for everyone, today and for generations to come. While economic growth is key to rising national prosperity, it must not come at the expense of the environment.

To fulfil its commitment to sustainable development, the Government is pursuing a far-reaching strategy to tackle climate change and improve air quality, to regenerate cities and to protect the countryside.

The Pre-Budget Report describes the next steps the Government is taking to deliver its environmental objectives, including:

- responding to the Green Technology Challenge (GTC) by proposing to extend enhanced capital allowances (ECAs) to encourage investment targeted at a wider range of environmental objectives; further energy-saving technologies, cleaner fuels and vehicles, reducing demand for water and improving water quality;
- launching a consultation on modernising road haulage taxation, which will examine two options for lorry road-user charging – time-based charging and distance-based charging – to ensure that hauliers from overseas contribute fairly towards the costs they impose in the UK. The Government is committed to ensuring that the UK haulage industry would not pay more as a result of a new lorry road-user charge, through implementing offsetting reductions in other taxes on lorry operators. This builds on recent reforms to lorry VED;
- publishing shortly a consultation document on Powering Future Road Vehicles, to encourage low-carbon vehicles and fuels such as hydrogen fuel cells;
- continuing to encourage the development and production of practical alternative transport fuels with environmental benefits over current conventional fuels. Following the Green Fuels Challenge, the Government is announcing fuel duty exemptions for pilot projects involving hydrogen, biogas and methanol as road transport fuels;
- continuing to pursue environmentally-based reforms of vehicle taxation, including consulting on options for modernising motorcycle VED and discussing with stakeholders tax changes to encourage van users to develop and adopt new technologies with environmental benefits; and
- continuing to promote a sustainable countryside through the aggregates levy which will be introduced at £1.60 per tonne in April 2002, as announced in Budget 2000. Today the Chancellor announced that the Government is attracted to phasing in the aggregates levy over five years for aggregates used in processed products in Northern Ireland.

For further details of the next steps in the Government's environmental strategy see the separate press release HMT2.

## **NOTES FOR EDITORS**

Further details of the Pre-Budget Report can be found on the Treasury's website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk) More details are also included in the separate press notices listed below:

HM Treasury

HMT 2          Protecting the environment, today and for the future

Inland Revenue and HM Treasury

REV/HMT 1          Income tax allowances and national insurance  
contributions

REV/HMT 2          Enterprise in disadvantaged communities

REV/HMT 3          Enterprise and innovation – the key to a modern  
business environment

Inland Revenue and Customs and Excise

REV/C&E 1          Boosting investment and growth for small businesses

Customs and Excise

C&E 1              Tackling fraud and smuggling

## **HM TREASURY PRESS OFFICE**

Press enquiries:                      020 7270 5238

Non-media enquiries: 020 7270 4558

## **DTLR PRESS OFFICE**

Press enquiries:                      020 7944 3066

Non-media enquiries: 020 7944 3000

## **INLAND REVENUE PRESS OFFICE**

Press enquiries:                      020 7438 6692 / 6706 / 7327  
(out of hours: 07860 359544)

Non-media enquiries: 020 7944 3000  
(office hours only)

**HM CUSTOMS AND EXCISE PRESS OFFICE**

Press enquiries: 020 7865 4775/5949/5471  
020 7865 5715/5095/5010  
(out of hours:020 7620 1313)

**GOVERNMENT DEPARTMENT INTERNET SITES**

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

HM Treasury [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

Inland Revenue [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

HM Customs and Excise [www.hmce.gov.uk](http://www.hmce.gov.uk)

## **HMT 2**

**27 November 2001**

### **PROTECTING THE ENVIRONMENT, TODAY AND FOR THE FUTURE**

The Government today announced further steps to put sustainable development at the heart of strategic policy-making and protect the environment.

Commenting on these developments, Financial Secretary Paul Boateng said:

“Sustainable development means a better quality of life for everyone. We must consider global issues such as climate change, and the issues directly affecting our local environment, the neighbourhoods where we live and our day-to-day quality of life.

“Today’s announcements are an important step forward in delivering our objectives. They demonstrate a strategic approach – ensuring that sustainable development informs our approach to taxation and underpins all of our priorities for public spending. As part of this we are taking forward new policies to encourage the early development and take-up of products that offer real environmental benefits – such as the Green Fuel and Green Technology Challenges.”

The Government has today announced key developments in taking forward its strategic approach to sustainable development.

- Further tax incentives for low-carbon vehicles and fuels: the Government committed itself today to introduce further tax incentives to encourage new low-carbon vehicle technologies, such as hydrogen fuel cells. These are in addition to those already introduced to company car tax, vehicle excise duty and through the Green Fuel Challenge. These further incentives will be considered in Budget 2002 in the light of the Government’s new draft strategy towards future road vehicles and fuels – Powering Future Vehicles – to be launched shortly.

- Green Technology Challenge: the Government today announced its intention to give further tax incentives for environmentally-friendly investments by business in the form of enhanced capital allowances during 2002-03 for selected technologies. It will investigate three key areas:

- energy-saving, in addition to those allowances already introduced as part of the climate change levy package which are worth an estimated £130 million in 2002-03;

- cleaner fuels and vehicles, including responses to the Powering Future Vehicles consultation;

- improving water use and water quality.
- Spending Review 2002: the Government has affirmed its commitment to sustainable development in the next Spending Review. The published guidance to departments on sustainable development in Spending Review 2002 demonstrates the important role that public spending can play in delivering the Government's quality of life objectives. It is vital to ensure that the contribution to sustainable development of the Government's spending of £394 billion a year is assessed and recognised.

In addition to these strategic steps, the Government announced further progress and measures in support of the environment, including:

- business energy-efficiency: reporting on progress with the climate change levy package, including the successful implementation of 44 negotiated agreements with energy-intensive business sectors to improve energy-efficiency in return for levy discounts of 80 per cent, and the launch of the world's first economy-wide emissions trading scheme in the UK next year;
- Green Fuel Challenge: announcing that three new pilot schemes to test possible future green fuels – hydrogen, landfill gases and methanol - will have exemptions from fuel duty. This builds on announcements in Budget 2001 of fuel duty discounts for road fuel gases and biodiesel to reflect their environmental benefits;
- modernising road haulage taxation: consulting on options for introducing a lorry road-user charge to build on recent reforms to lorry taxation so that lorry operators using UK roads pay fairly towards the costs they impose irrespective of nationality. As the UK haulage industry already contributes to these costs, the Government is committed to ensuring that overall costs to the UK haulage industry are not increased;
- vehicle excise duty: launching a consultation on options for modernising motorcycle VED and discussing with stakeholders the possible role of tax incentives, such as VED, to encourage cleaner vans. This will build on recent reforms to VED for cars and lorries – including the modernisation of VED for lorries due in December 2001;
- fuel for employees: announcing that the Government is considering restructuring the fuel scale charge, to relate it to carbon dioxide emissions in 2003, and will consult on detailed proposals shortly;
- aggregates levy: announcing more details of the revenue -neutral aggregates levy package – to be introduced in April 2002 to reflect the environmental costs of quarrying in prices of aggregates and encourage more recycling – including a proposal that the levy in Northern Ireland be phased in for aggregates used in processed products;
- improvements in the public space: reviewing steps to improve the safety and attractiveness of streets and public places as part of Spending Review 2002, to create stronger communities and a better quality of life. The cross-cutting review will include

recommendations on Government policies, funding and targets – building on recent measures such as those announced to deal with abandoned cars;

- pesticides: the pesticides voluntary package, which has been in operation since April 2001, will be reviewed in the run up to Budget 2002, to assess whether it is delivering significant environmental benefits above those that would result from a tax on pesticides.

## **NOTES FOR EDITORS**

### **Powering Future Vehicles**

The draft strategy document Powering Future Vehicles is due to be published shortly. On the basis of this strategy, the Government will consider further tax incentives to encourage low-carbon vehicle technology in Budget 2002. Existing measures taken to encourage cleaner and low-emission vehicles and fuels include:

- fuel duty reductions to promote cleaner fuels such as road fuel gases, as part of the Green Fuel Challenge;
- fuel duty incentives for cleaner ultra-low sulphur forms of petrol and diesel, reducing emissions of nitrogen oxides, particulates and volatile organic compounds, which damage local air quality and are responsible for health problems;
- reforms to vehicle excise duty, including the introduction of a carbon-dioxide based system of VED for new cars from March 2001, which rewards cars with lower emissions of carbon dioxide and cars that use cleaner fuels; and
- the introduction of a new system of company car tax reflecting cars' carbon dioxide emissions, estimated to save 0.5-1.0 million tonnes of carbon emissions a year in the long-term.

### **Green Technology Challenge**

The Government, as proposed in Budget 2001, has consulted on the objectives of the Green Technology Challenge (GTC). It is today announcing that it will consider introducing enhanced capital allowances in three areas:

- energy-saving;
- cleaner fuels and vehicles; and
- improving water use and water quality.

The Treasury published a consultation document, Green Technology Challenge, in July 2001, seeking views on which environmental objectives could be supported by tax relief on investments. Some 100 responses were received which showed strong support for the principle of Enhanced Capital Allowances, while recognising that they are not the most appropriate fiscal instrument for all environmental objectives. A summary of the responses to the consultation will be published shortly.

The GTC builds upon the already successful tax incentive scheme for energy-saving equipment introduced in Finance Act 2001 as part of the climate change levy package. Since 1 April 2001, businesses have been able to set the whole of their expenditure on qualifying equipment against their taxable profits in the period during which the investment is made. Technologies that qualify for these enhanced capital allowances are contained in lists issued by the Secretary of State for the Department of Environment Food and Rural Affairs. Details of the qualifying technologies and products are available on the internet at [www.eca.gov.uk](http://www.eca.gov.uk). Further enhanced capital allowances considered as part of the GTC will be introduced during 2002-03.

### **Business energy-efficiency**

The revenue-neutral climate change levy package, estimated to save emissions of 5 million tonnes of carbon a year by British business by 2010, was introduced in April 2001, including:

- 44 innovative negotiated agreements with business sectors to improve energy-efficiency;
- the Carbon Trust, partly funded by the climate change levy package, launched in April, providing energy-efficiency advice and support for low-carbon technologies;
- a reduction of 0.3 percentage points in employers' national insurance contributions, as the Government shifts taxes from "goods" such as employment to "bads" such as pollution; and
- publication of the lists of technologies and products eligible, from 1 April 2001, for enhanced capital allowances for energy-saving investments by business. The Government is today announcing that, as one of the outcomes of the Green Technology Challenge, the Carbon Trust will review further energy-saving technologies to qualify for these enhanced capital allowance tax incentives.

The world's first economy-wide greenhouse gas emissions trading scheme will be launched in the UK next year.

## **Green Fuel Challenge**

The Government announced today that, subject to EU agreement, it will support the development of cleaner fuels through a fuel duty exemption for three pilot projects – a hydrogen-fuelled bus and the use of both landfill gas and methanol as road fuels.

In July 2001 the Green Fuel Challenge (GFC) invited bids for duty reductions or exemptions for research into innovative alternative transport fuels. This has resulted in exemptions for the three projects announced today that successfully met the Government's criteria. The Government is also exploring a further research project into ethanol produced from biomass, such as forestry and garden waste.

The GFC was first launched in November 2000 to promote the development of alternative fuels with environmental benefits. After receiving the initial round of proposals, the Government decided in Budget 2001 to:

- cut the duty on road fuel gases from 15 pence per kilogramme to 9 pence per kilogramme. It also announced that the rate would be frozen in real terms until at least 2004; and
- introduce a new rate for bio-diesel at 20 pence per litre below the duty rate for ultra-low sulphur diesel in Budget 2002.

The Government will invite a second stage of bids for pilot projects under the Green Fuel Challenge next year.

## **Modernising Road Haulage Taxation**

The Government is also today announcing a consultation, Modernising the Taxation of the Haulage Industry: A consultation document, into road user-charging for lorries – including time-based and distance-based charging options – for delivering its commitment to ensure hauliers contribute fairly towards the costs they impose in the UK, regardless of nationality. As UK hauliers already contribute towards these costs, the Government remains committed to ensuring that the UK haulage industry does not pay more as a result of a new lorry road-user charge, through implementing offsetting reductions in other taxes on lorry operators.

## **Vehicle Excise Duty**

Pursuing its environmentally-based reforms of vehicle taxation, the Government today announced that it will consider measures, such as changes to vehicle excise duty, to encourage van users to adopt new cleaner technologies. It is also today launching a consultation on modernising motorcycle Vehicle Excise Duty.

As announced in Budget 2001, wide-ranging simplified and environmentally-based reforms to lorry Vehicle Excise Duty will be introduced in December 2001.

### **Fuel for employees**

The Government will launch a consultation on new fuel scale charges shortly, including the option for the tax regime on free fuel provided to company car users to reflect carbon dioxide emissions.

### **Aggregates levy**

As previously announced, the revenue-neutral aggregates levy package will be introduced in April 2002 to ensure that the environmental costs of quarrying are reflected in prices and encourage use of alternative materials.

The £35 million a year Sustainability Fund, for reducing the need for virgin aggregates and for delivering environmental benefits to areas affected by quarrying, and a 0.1 percentage point cut in employers' national insurance contributions will be funded by revenues recycled from the levy.

The Government is today proposing a phased introduction of the levy in Northern Ireland for aggregates used in processed products. The Government is seeking European Commission state aid approval for this step, in recognition of special local circumstances.

### **Improvements in the public space**

A cross-cutting review, as part of Spending Review 2002, will look at how Government policies, funding and targets can produce improvements in the safety and attractiveness of the public space – the local environment where people lead their lives. This will consider how best to tackle problems like anti-social behaviour, traffic impact, abandoned cars, litter and improving parks and play areas. The review, which is open and considering the views of the full range of stakeholders, will produce recommendations by December 2001, in time to feed into the Spending Review process.

The Government has launched a consultation exercise on abandoned cars, Abandoned Cars – A Consultation Document, (Department of Transport Local Government and Rural Affairs and DEFRA, October 2001). This outlines proposals for the short-term, to remove them more swiftly, and longer-term ideas to prevent vehicles from being abandoned. As part of these proposals, the Government is determined to challenge motorists who fail to pay their VED and is reviewing options for ensuring that there is a sufficient penalty to deter such evasion.

### **HM TREASURY PRESS OFFICE**

Press enquiries: 020 7270 5238

Non-media enquiries: 020 7270 4558

### **DEFRA PRESS OFFICE**

Press enquiries: 0207 238 5608 Environment and Rural Affairs  
0207 238 5599 Food and Farming

### **DTLR PRESS OFFICE**

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Non-media enquiries: 020 7944 3000

### **INLAND REVENUE PRESS OFFICE**

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(out of hours: 07860 359544)

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### **HM CUSTOMS AND EXCISE PRESS OFFICE**

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HM Customs and Excise [www.hmce.gov.uk](http://www.hmce.gov.uk)

DTLR

[www.dtlr.gov.uk](http://www.dtlr.gov.uk)

DEFRA

[www.defra.gov.uk](http://www.defra.gov.uk)

## **REV/HMT 1**

**27 November 2001**

### **INCOME TAX ALLOWANCES AND NATIONAL INSURANCE CONTRIBUTIONS**

#### **Tax allowances**

The Chancellor today announced that from April 2002 the income tax personal allowance would be increased to £4,615, in line with indexation. This means that all taxpayers will be able to have income of at least £89 a week in the tax year 2002-03 before they pay income tax.

The Chancellor also announced that age-related tax allowances for 2002-03 will be increased in line with indexation.

#### **National Insurance**

The levels and thresholds for national insurance contributions (NICs) will increase from April 2002 in line with indexation. This means that the starting point for payment of both employees' and employers' NICs in 2002-03 will be £89 a week and as such no employee will pay income tax or NICs on earnings below this amount.

For the self-employed the rate of Class 2 contributions will be frozen for the second successive year.

The rate of employer NICs will be reduced by 0.1 per cent from 11.9 per cent to 11.8 per cent from April 2002. This helps to protect UK competitiveness by ensuring that the introduction of the aggregates levy is revenue neutral.

## **DETAILS**

### **Tax allowances**

The income tax personal allowance will be increased to £4,615 in 2002-03, in line with the increase in the Retail Prices Index (RPI) for the year ended September 2001.

The alignment of the income tax personal allowance and the starting point for payment of employees' and employers' NICs means that, in practice, the amount of the allowance now needs to be announced in the autumn, to give employers time to implement the change in the NICs threshold.

The Chancellor also announced today that the age-related allowances and the point at which a pensioner will get those allowances in full (the income limit) for 2002-03 will rise by indexation. The personal allowance for someone aged 65 to 74 will rise to £6,100 and the allowance for someone aged 75 or more to £6,370. The income limit will rise from £17,600 to £17,900.

The 2002-03 levels of age-related allowances, and the income limit, are set out in Annex 1.

### **National Insurance**

To increase the levels and thresholds in line with inflation, the Paymaster General, Dawn Primarolo, announced the following changes to national insurance contributions today.

For employers and employees:

- In line with the Social Security Contributions and Benefits Act 1992, the Lower Earnings Limit for primary Class 1 contributions is to be raised to £75 a week. It is set at the level of the basic Retirement Pension for a single person from April 2002 and rounded down to the nearest pound.
- The Primary Threshold for primary Class 1 contributions and the Secondary Threshold for secondary Class 1 contributions will be raised to £89 a week, the same as the weekly amount of the income tax personal allowance. This means that no tax or Class 1 contributions will actually be paid on earnings below this level.
- The Upper Earnings Limit for primary Class 1 contributions will be raised to £585 a week in line with inflation .

- The rate of secondary Class 1 contributions payable by all employers is to be reduced by 0.1 per cent, from 11.9 per cent to 11.8 per cent. This will help to ensure that the introduction of the aggregates levy will be revenue neutral in its overall effect on business, thereby helping to protect UK competitiveness and employment while at the same time helping the UK achieve its environmental objectives.

For the self-employed:

- The rate of Class 2 contributions will be frozen at £2.00 a week.
- Self-employed people with earnings below the annual Small Earnings Exception can apply to be exempted from paying Class 2 contributions. This limit will be raised to £4,025.
- The annual lower and upper profits limits for liability to Class 4 contributions will be raised to £4,615 (in line with the income tax personal allowance) and to £30,420 respectively, to maintain the link with employees' earnings liable to Class 1 contributions.

For those paying voluntary contributions:

- The rate of Class 3 voluntary contributions will be increased by 10 pence to £6.85 a week.

For share fishermen:

- The special rate of Class 2 contributions, which allows them to build entitlement to contributory Jobseeker's Allowance in addition to the other contributory benefits available to the self-employed, will also be frozen at £2.65 a week.

For Volunteer Development Workers:

- The special rate of Class 2 contributions which entitles them to the full range of contributory benefits, will be increased by 15 pence to £3.75 in line with the statutory formula of 5 per cent of the primary Class 1 Lower Earnings Limit.

A draft re-rating order, accompanied by a report by the Government Actuary on the effect the order will have on the National Insurance Fund, will be laid before Parliament in due course.

A table which sets out the rates, earnings limits and thresholds for National Insurance Contributions proposed for 2002-03 is attached in Annex 2.

## **NOTES FOR EDITORS**

1. The announcement today confirms that the personal allowance, the age related allowances and the income limit will be increased next year in line with statutory indexation. Income tax allowances are uprated each year in line with indexation unless legislation is passed to override its effects. Statutory indexation is based on changes to the Retail Prices Index in the year to September, so this early announcement does not affect the amount of the increase. A statutory instrument has been laid today, confirming the effect of indexation on the personal allowance, age-related allowances and the income limit for 2002-03.

2. Estimates of the yield of national insurance contributions will be included in the Government Actuary's report on the draft of the Social Security (contributions) (re-rating and National Insurance funds payments) Order which will be laid before Parliament.

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020 7865 5715/5095/5010  
  
(out of hours:020 7620 1313)

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HM Customs and Excise              [www.hmce.gov.uk](http://www.hmce.gov.uk)

## PRESS NOTICE ANNEX

### Annex 1

Income tax personal and age-related allowances 2002-03			
£ per year			
2001-02	Change	2002-03	
Personal allowance (age under 65)	4,535 (+80)	4,615	
Personal allowance (age 65-74)	5,990 (+110)	6,100	
Personal allowance (age 75 and over)	6,260 (+110)	6,370	

Married couple's allowance\* (aged less than 75 and born before 6th April 1935) 5,365  
(+100) 5,465

Married couple's allowance\* (age 75 and over) 5,435 (+100) 5,535

Married couple's allowance\* - minimum amount 2,070 (+40) 2,110

Age d income limit 17,600 (+300) 17,900

\* Married couple's allowance given at the rate of 10%.

### Annex 2

#### National Insurance Contributions

Item	2002-03
Lower earnings limit, primary class 1	£75 per week
Upper earnings limit, primary class 1	£585 per week
Primary threshold	£89 per week
Secondary threshold	£89 per week
Employees' primary class 1 rate	10% of £89.01 to £585 per week
Employees' contracted-out rebate	1.6%
Married women's reduced rate	3.85%
Employers' secondary Class 1 rate	11.8% on earnings above £89 per week
Employers' contracted-out rebate, salary-related schemes	3.5%

Employers' contracted-out rebate, money-purchase schemes	1.0%
Class 2 rate	£2.00 per week
Class 2 small earnings exception	£4,025 per year
Special Class 2 rate for share fishermen	£2.65 per week
Special Class 2 rate for volunteer development workers	£3.75 per week
Class 3 rate	£6.85 per week
Class 4 rate	7%
Class 4 lower profits limit	£4,615 per year
Class 4 upper profits limit	£30,420 per year

**REV/HMT 2**

**27 November 2001**

## **ENTERPRISE IN DISADVANTAGED COMMUNITIES**

Disadvantaged communities received a boost today when the Chancellor announced two important measures to encourage investment and stimulate regeneration.

To deliver faster productivity growth and rising living standards for all, enterprise and investment must spread to every region and community of Britain. Towns and cities grow, survive and prosper because they attract and retain businesses and people. To extend opportunity and ensure that disadvantaged communities are not left behind, the Government is:

- announcing further details of the new Community Investment Tax Credit (CITC) to encourage private investment by enterprises in under-invested communities. To increase access and draw maximum benefit from the tax credit, the Government is announcing that the overall cap on the amount of tax credits that can be awarded in any year will be removed; and
- implementing a stamp duty exemption for property transfers up to £150,000 in the country's most disadvantaged areas, making investment, especially by businesses, in these areas more attractive and promoting regeneration. The Government intends to raise the limit significantly or abolish stamp duty for all transfers of non-residential property within the qualifying areas as a second stage of reform, expected to start in 2002.

Announcing these measures, the Financial Secretary to the Treasury, Paul Boateng, said:

“The Government is committed to providing economic opportunity for all, and these new measures will boost enterprise and investment in Britain's most disadvantaged areas. The Community Investment Tax Credit will unlock new sources of capital, stimulating business activity in parts of our society suffering from acute deprivation. I am also delighted to be able to say that business start-up, expansion and re-location in 2000 of the most disadvantaged areas of the UK will be made cheaper from Friday, as stamp duty on property sales worth up to £150,000 in these areas will be abolished. ”

In addition, entrepreneurs will benefit from the Community Development Venture Capital Fund, a £40 million private-public venture capital fund due to come into force in early 2002 which will only invest in businesses in disadvantaged areas and which has received substantial interest from private investors.

Responding to the Government's proposals, Sir Ronald Cohen, Chairman of the Government's Social Investment Taskforce and the venture capital fund, Apax Partners, said:

"Venture capital has proved to be a powerful engine of growth in the mainstream economy. The fund will now apply venture capital techniques to the most disadvantaged communities in England. My early discussions with the private sector have been encouraging and pending state aids approval I hope to see the fund up and running by the end of the financial year."

## **DETAILS**

The Government committed itself to promoting enterprise for all in the Chancellor's speech of June 18 this year. Today's measures are designed to advance this initiative. They include:

- improvements to the design of the Community Investment Tax Credit (CITC);
- a major stamp duty cut to stimulate economic activity in disadvantaged areas – details published today and taking effect from Friday 30 November; and
- positive reaction from private sector investors to proposals for a pioneering £40 million Community Development Venture Fund.

### **Community Investment Tax Credit**

A tax credit worth 25 per cent of investment spread evenly over five years will be channelled to the individuals or corporations providing capital to intermediaries called Community Development Finance Institutions. CDFIs will provide capital and technical assistance to enterprises excluded from mainstream finance. Today the Government announces several modifications to the CITC, including:

- removing the overall cap on the total amount of investment attracting the CITC in any one year. This will mean that instead of competing against each other, CDFIs will compete against a standard. The Government believes this will increase access to the CITC, reduce administrative costs for CDFIs and make it easier to determine whether a CDFI can raise investment attracting the tax credit (accreditation);
- proposing that the Department of Trade and Industry's Small Business Service (SBS) administer the accreditation process;
- applying some restrictions to property investment, prohibiting accredited CDFIs from investing tax-incentivised funds in residential accommodation;
- including "wholesale" CDFIs (i.e. CDFIs whose main activity is lending to other CDFIs which in turn invest in enterprises in disadvantaged communities) within the CITC.

## Stamp Duty exemption: enterprise and urban regeneration

The stamp duty exemption announced today will be introduced in two stages:

- with effect from 30 November 2001, in almost 2,000 wards throughout the country, details of which have also been announced today, relief will be available on all property sales for a price ("consideration") up to £150,000.
- under the second stage, which is subject to state aids approval but expected to start in 2002, the Government intends to raise the limit significantly or abolish stamp duty for all transactions in non-residential property within the qualifying areas.

This exemption will encourage businesses and families to locate in the qualifying areas, helping to revive depressed property markets, promoting enterprise and increasing employment opportunity.

The stamp duty exemption is part of the Government's Urban White Paper fiscal package, which also includes VAT reforms to encourage the conversion and renovation of existing residential property, tax relief to encourage conversion of empty space over shops into flats, and tax credits for cleaning up contaminated land. In addition, the Government is considering provision for tax relief for donations to urban regeneration companies, and legislation will be introduced to create "Business Improvement Districts."

## **Community Development Venture Fund**

There have been strong expressions of interest in the Community Development Venture Fund from the private sector. The £40 million Fund will be a commercial venture capital operation that only invests in the most deprived areas of England. The Government has committed £20 million in matching funds as long as the private sector invests £20 million as well. Sir Ronald Cohen, Chairman of venture capital firm Apax Partners, has been discussing the fund with the private sector following the work of the Social Investment Taskforce, which he chaired. He has received a positive response to his initial proposals. Pending state aids approval the fund should be operational in early 2002.

## **NOTES FOR EDITORS**

This section provides background on the Government's announcements today regarding the Community Investment Tax Credit and stamp duty.

### **COMMUNITY INVESTMENT TAX CREDIT**

- Removing the overall cap on the amount of investment attracting Community Investment Tax Credit in any year:
- Under original proposals, CDFIs would have to compete against each other for a fixed amount of tax-incentivised investment available each year. Respondents to the consultation felt that this would place a large administrative burden on CDFIs and would be inequitable.
- The Government also proposes to allow CDFIs to raise sufficient tax-incentivised investment to fund 2-3 years worth of investment, rather than just one year.
- A limit of £10 million is proposed on the amount of tax-advantaged investment that an individual CDFI can raise from any one accreditation round. This is not expected to constrain CDFIs, but will prevent excessive pressure on the Exchequer, should demand be unexpectedly high.
- The Department of Trade and Industry's (DTI) Small Business Service (SBS) will administer the accreditation process for CDFIs that wish to raise investment qualifying for tax credits. Work is currently under way on the detailed structure of the accreditation process, which is likely to include the use of an advisory panel of experts. In this work the SBS will engage fully with their counterparts in the devolved administrations.
- Placing some restrictions on property investment:
  - the Government accepts that property development and investment in businesses that provide commercial property to rent has a role to play in providing an improved infrastructure for disadvantaged communities. Property-backed business (such as a hotel, or a factory with freehold premises) may play a similar role. However, the Government wishes to prevent the development of accredited CDFIs that are no more than property investment and holding companies, as such CDFIs are not expected to provide the wider access to funding that the CITC seeks to encourage.
- Including wholesale CDFIs in the CITC:
  - there are indications that there will be demand for the service wholesalers could provide; they exist in the more mature US CDFI sector, and some are currently being set up in the UK.

- the Government's view is that since the aim of the CITC is to promote a business solution to problems of social deprivation, the market, wherever possible, should be left to determine its own structure.

## **STAMP DUTY**

### Qualifying areas:

- the full list of almost 2,000 disadvantaged areas announced today is available on the Stamp Office website ( [www.inlandrevenue.gov.uk/so](http://www.inlandrevenue.gov.uk/so) ). The list draws on the individual index of deprivation in each nation of the UK. Selection has been made on the level of individual wards except in Scotland, where the Index of Deprivation is based on postcodes.
- the selection focuses the relief on areas of the greatest disadvantage, whilst aiming for a fair balance between the countries of the UK. It was prepared following consultation with the devolved administrations in Scotland, Wales and Northern Ireland.
- for England and Scotland, the most disadvantaged 15 per cent of wards/postcodes will qualify for the exemption. In Wales and Northern Ireland, the exemption will apply to the most disadvantaged 42 per cent of wards.

### Claiming the exemption:

- for the exemption to apply, the instrument of transfer would need to be certified. In most circumstances professional advisors will be required for certification.
- Further information can be obtained from local stamp offices and from:

The Stamp Office website [www.inlandrevenue.gov.uk/so](http://www.inlandrevenue.gov.uk/so)

The Stamp Office helpline 0845 603 0135

Commencement: the exemption will apply to all qualifying documents executed on or after Friday 30 November.

### Legislation:

- The exemption was introduced by Section 92 (with Schedule 30) Finance Act 2001.  
The restriction of the exemption for the time being to transactions up to £150,000 is effected by The Variation of Stamp Duties Regulations (SI 3746/2001). The Treasury Order by which the exemption is brought into effect under Section 92(8) Finance Act 2001 is The Finance Act 2001, Section 92(8), (Specified Day) Order 2001 (SI 748/2001);

and the regulations designating the qualifying disadvantaged areas (Section 92(4)) are The Stamp Duty (Disadvantaged Areas) Regulations (SI 3747/2001).

- Second stage: the exact timing for the second stage of the exemption will take into account progress of relevant state aid deliberations, but it will not start before Budget Day 2002. Budget 2002 will include a proposal to distinguish between residential and non-residential property for stamp duty purposes; and draft clauses will be published for consultation shortly.

- Leases: for the purpose of the exemption, as for stamp duty generally, assignments of existing leases will be treated in the same way as sales of freeholds. Premiums under new leases will also be eligible.

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HM Customs and Excise [www.hmce.gov.uk](http://www.hmce.gov.uk)

**REV/HMT 3**

**27 November 2001**

**ENTERPRISE AND INNOVATION - THE KEY TO A MODERN BUSINESS ENVIRONMENT**

A new tax credit to boost R&D and innovation in larger companies will further the Government's ambition to close the productivity gap between the UK and its main competitors, the Chancellor announced today.

Following an initial consultation after Budget 2001, the Government has decided to adopt a version of a volume-based credit – a design strongly favoured by earlier respondents. The Government will launch a further consultation shortly on options for the design of a volume-based credit, recognising the importance of working in partnership with business.

Also announced today was a package of measures to build on the Government's radical reform of the corporate tax regime.

In response to recent consultations with business, the Government is publishing consultative draft legislation on:

- an exemption for capital gains and losses on substantial shareholdings to ensure that important business decisions on corporate restructuring and reinvestment are made for commercial, rather than tax, reasons; and
- a new regime for providing relief to companies for the costs of intellectual property, goodwill and other intangible assets to encourage businesses to take advantage of new opportunities in the emerging knowledge-based economy.

The Government intends, subject to consultation, to introduce these measures from April 2002.

This Pre-Budget Report also announces:

- publication, later this year, of draft legislation on a new regime for the taxation of corporate debt, financial instruments and foreign exchange gains and losses from October 2002 to provide longer-term stability and transparency for business;
- improvements to the capital gains tax (CGT) business assets taper relief for disposals from April 2002 to enhance the competitiveness of the UK regime;

- consultation on an optional scheme to enable companies to pay cross border royalties without deducting tax at source; and
- changes to the Construction Industry Scheme to help ensure that companies suffering deductions under this scheme can engage employees and other subcontractors and continue to meet their tax liabilities.

The Government is today publishing the Inland Revenue's review of links with business – a report recommending the improvement of the Revenue's operational links with large corporates.

This Pre-Budget Report also introduces a package of measures to reduce further the tax burden on small businesses and those who invest in them. For more information, see:

Press Notices

REV/C&E 1            Boosting Investment and Growth for Small Businesses;

## **DETAILS**

### **R&D Tax Credit**

The Government published a consultation document *Increasing Innovation in Budget 2001*. This set out the case for a new R&D tax credit for large companies and invited comments on two options:

- an “incremental” scheme, giving extra tax relief based on the additional amount of R&D spending; and
- a “volume” credit, giving extra tax relief based on the total amount of R&D spending.

A further consultation document will be launched on next month, summarising the responses received and outlining progress on designing the scheme. The aim of this further consultation will be to consider options for the design of a volume-based R&D tax credit.

## **Substantial Shareholdings**

The Government is today publishing draft legislation providing details of a relief for capital gains and losses on substantial shareholdings. It is proposed that for disposals on or after 1 April 2002, gains will be exempt, and losses not allowable, where:

- a trading company, or a member of a trading group disposes of shares in a trading company, or the holding company of a trading group (or sub-group); and
- a substantial shareholding has been held throughout a 12 month period ending not more than 12 months before the disposal.

Alongside the draft legislation, the Inland Revenue is publishing a Statement of Practice which gives guidance on the calculation of underlying tax on foreign dividends received by companies.

The full draft legislation with outline explanatory notes on the proposed exemption and a partial Regulatory Impact Assessment has been placed in the House of Commons and may be obtained by post from:

Inland Revenue  
Capital and Savings  
Room 121  
New Wing  
Somerset House  
Strand ,  
London WC2R 1LB

It may also be downloaded from the Inland Revenue website at:

[www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk).

## **Intellectual Property, Goodwill and Other Intangible Assets**

The Government is also publishing draft legislation on a new regime for providing relief to companies for the costs of intellectual property, goodwill and other intangible assets:

- covering the costs of acquiring intangible assets where no relief had previously been available; and
- ensuring that relief for future acquisitions will be given on a consistent basis, following, as far as possible, the amortisation reflected in companies' accounts.

Draft legislation for the new regime, together with a commentary and a partial Regulatory Impact Assessment has been placed in the House of Commons, and may be obtained by post from:

Inland Revenue  
Business Tax  
Room 4W3  
22 Kingsway  
London WC2B 6NR.

It may also be downloaded from the Inland Revenue website at:

[www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk) .

### **Corporate Debt, Financial Instruments and Foreign Exchange Gains and Losses**

In addition, the Government will shortly be publishing details of a new regime for corporate debt, financial instruments and foreign exchange gains and losses. The new tax regime will:

- merge the separate legislation on foreign exchange gains and losses, with appropriate amendments, into the legislation on corporate debt and financial instruments. This will simplify the legislation and minimise compliance burdens for both business and the Inland Revenue;
- extend the scope of the financial instruments regime to give certainty for most derivative contracts, including those which had not been developed when the original rules were introduced; and
- address the issue of connected party bad debt, as the rules defining what is meant by 'connected' have been causing problems in practice and they will be changed to operate more fairly.

There has been extensive consultation on the detail of these changes. This has shown widespread support for the Government's intention to minimise compliance burdens, reduce economic distortions and limit avoidance opportunities so that all companies pay their fair share of tax and compete on a level playing field.

The new rules will apply for companies accounting periods beginning on or after 1 October 2002. This should ensure that companies have plenty of time to prepare for implementation.

### **Capital gains tax business assets taper**

This Pre-Budget Report confirms improvements to the capital gains tax business assets taper relief, as announced in June 2001:

- so that the effective rate of tax for a higher rate taxpayer is reduced to 20 per cent after a holding period of one year and 10 per cent after only two years; and
- helping new and growing companies, for whom equity investments are a vital source of capital.

Legislation is to be introduced as part of the Finance Bill 2002 so that, with effect for disposals from 6 April 2002, the rate of CGT business assets taper relief will be:

Whole years asset held from 6 April 1998 (%)	Existing rates		Proposed new rates (disposals from 6 April 2002)		Effective rate of tax for higher rate taxpayer (%)
	Percentage of gain charged to tax (%)	Percentage of gain charged to tax (%)	Percentage of gain charged to tax (%)	Percentage of gain charged to tax (%)	
Less than 1	100	40	100	40	
1	50	20	87.5	35	
2	25	10	75	30	
3	25	10	50	20	
4 or more	25	10	25	10	

The Government is also considering:

- whether there is any case for changes to the capital gains tax regime for non? business assets in order to improve incentives for investment; and
- various proposals it has received in response to the consultation launched in June 2001 on value-for-money options to simplify capital gains tax within the existing policy framework.

### **Construction Industry Scheme**

The Government also intends to introduce changes to the Construction Industry Scheme, replacing from 6 April 2002 the existing legislation that provides for deductions made from payments to companies without certificates to be set against corporation tax. New legislation will allow these payments to be set off against PAYE, NICs and CIS liabilities.

### **Inland Revenue review of links with business**

The Government is today publishing the Inland Revenue Review of Links with Business, which focuses on the Revenue's operational links with large businesses and draws on views from a wide range of industry sectors and professional advisers. It recommends ways to improve communications between large corporates and the Inland Revenue, and specific pressure points in the operation of the tax system for large corporates. The

Government supports the recommendations and is grateful to business for its contribution to the review.

The review may be obtained by post or downloaded from the Inland Revenue website at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

### **Cross Border Royalties**

The Government proposes to introduce an optional scheme to enable companies to pay royalties overseas at the treaty rate of deduction, without seeking prior clearance from the Inland Revenue. Where a company has a reasonable belief that the non-resident recipient is entitled to relief under a double tax treaty in respect of the royalties, they may pay the royalty gross, or at a reduced rate of deduction at source, in line with the terms of the relevant treaty. Companies will be required to make a return of such payments. If it later turns out that treaty relief was not in fact due, the company will be liable to the tax (with interest and in limited circumstances penalties), which should have been deducted when making the payment.

The Inland Revenue is seeking the views of interested parties. Please send comments to:

Inland Revenue  
International  
Room 203,  
Victory House  
30-34 Kingsway  
London WC2B 6ES

### **NOTES FOR EDITORS**

The Government has made significant progress in creating a modern corporate tax regime. In particular, the Government has, since 1997, cut the main rate of corporation tax by 3 percentage points to 30 per cent – the lowest ever rate in the UK. This Pre-Budget Report builds on this progress by announcing a package of measures, focused on:

- longer-term stability in a modern, knowledge-based economy; and
- an attractive environment for investment.

Details of the exemption for gains on substantial shareholdings are available in a technical note published by the Inland Revenue. As well as draft clauses, related commentary and a partial Regulatory Impact Assessment, the note contains a summary of responses to the July 2001 Large Business Tax consultation, which invited responses on the design of a relief for capital gains on substantial shareholdings and a possible

exemption of foreign dividends. The Government intends to introduce legislation in the 2002 Finance Bill.

Draft legislation for the new regime for intellectual property, goodwill and other intangible assets is included in a technical note published today by the Inland Revenue. The Government intends to introduce legislation in the 2002 Finance Bill.

On 26 July 2001, the Inland Revenue issued a consultation document - Corporate Debt, Financial Instruments and Foreign Exchange Gains and Losses. This set out the Government's proposals on how to:

- repeal the 1993 Forex legislation and assimilate it into the financial instruments & loan relationship rules. These are as parts of the tax code which tax companies' borrowing and lending, including interest payments, and derivatives contracts;
- extend the scope of the financial instruments rules to cover all derivatives;
- reform the control rules and treatment of connected party bad debts in loan relationships; and
- stop a number of avoidance schemes while rationalising the anti-avoidance provisions.

There were over 40 responses to the consultation document. The Government is very grateful for the considerable efforts made by respondents.

Details of the proposals will be available in a technical note to be published by the Inland Revenue shortly. This will contain a summary of responses to the consultation plus revised versions of draft clauses and related commentary. The Government intends to introduce final legislation in the 2002 Finance Bill.

Inland Revenue technical notes (as placed in the House of Commons) may also be obtained by post from the addresses given in the details section or downloaded from the Inland Revenue website at:

[www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

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Inland Revenue [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

HM Customs and Excise [www.hmce.gov.uk](http://www.hmce.gov.uk)

## **REV/C&E 1**

**27 November 2001**

### **BOOSTING INVESTMENT AND GROWTH FOR SMALL BUSINESSES**

A package of measures to encourage investment and growth in small businesses, helping make Britain one of the most competitive business environments in the world, was announced by the Chancellor today.

The package, which contains measures designed to cut compliance costs for over one million small businesses and to provide a flexible service to businesses in difficulty, includes:

- enhancing Enterprise Management Incentives by doubling the gross asset limit for qualifying companies, to £30 million. A Statutory Instrument will be laid before Parliament immediately to take effect from 1 January 2002;
- further measures to be introduced during 2002 to ease the impact of VAT on small and medium enterprises, including:
  - an optional flat-rate scheme designed to cut compliance costs for more than 300,000 businesses by up to £1,000 a year;
  - changes to simplify and increase participation in the VAT annual accounting scheme, which offers improved cash-flow and lower compliance costs to around 900,000 businesses; and
  - the introduction of an outreach business support programme, to offer proactive advice and support to businesses before they get into difficulties;
- publication of the Carter review of the provision of payroll services for new and small businesses and consultation on the review's proposals;
- publication of a prospectus for £50 million of early growth funding to help improve access to finance for over 1,000 businesses;
- further consultation on specific options to simplify the tax regime for small businesses through aligning profits for tax purposes more closely with those reported in their accounts; and
- confirmation of the Government's June 2001 commitment to extend the 10 pence starting rate of corporation tax – the lowest in the European Union – from Budget 2002, to further reduce the corporation tax bills of smaller companies.

This Pre-Budget Report also builds on the Government's radical reform of the corporate tax regime.

For more information, see Press Notice:

REV/HMT 3 Enterprise and Innovation – the key to a Modern Business Environment.

## **DETAILS**

### **Enterprise Management Incentives**

The Pre-Budget Report confirms an increase to £30 million in the gross asset limit for Enterprise Management Incentives (EMIs). A Statutory Instrument will be laid before Parliament immediately. This will take effect from 1 January 2002:

- building on the success of the EMI scheme and providing up to 6,000 more small companies with incentives to recruit and retain staff;
- helping, in particular, small, dynamic manufacturing enterprises, which are more likely to have assets in excess of the current £15 million limit.

### **Simplifying the Tax Regime**

The Government intends to consult business on specific ways of simplifying the corporation tax computation of small companies, while maintaining incentives and fairness. This is in response to comments received following the publication of the technical note "A review of small business taxation" issued in March 2001.

### **The Carter Review**

In June 2001, the Government appointed Patrick Carter to conduct a review of the provision of payroll services for new and small businesses and to consider the case for further action.

The Government is today publishing the review, which concluded that greater use of information technology is the key to enabling businesses to deal with the complexity of payroll obligations. The review recommends :

- a requirement for large employers (with 50 or more employees) to send their end-of-year returns to the Inland Revenue electronically by 2004 and for smaller employers by 2007; and

- cash incentives for smaller employers to encourage electronic filing of end-of-year returns with the Inland Revenue for a period of 5 years.

The Government believes that the review sets out a challenging but attractive package of measures to help employers meet their payroll obligations. In principle, the Government endorses the review's recommendations, but believes the issues raised would benefit from wider debate. The Government is therefore inviting comments on the detail of the recommendations by 31 January 2002.

## **NOTES FOR EDITORS**

Enterprise Management Incentives (EMIs) are tax-advantaged share options designed to help smaller, independent, higher risk companies recruit and retain employees with the skills that will help them grow and succeed. They are also designed to reward employees for taking a risk by investing their time and skills in helping small companies achieve their potential:

- Under EMI tax-advantaged options over shares with a market value of up to £100,000 may be granted to any number of employees of a company subject to a maximum share value of £3 million. For companies to qualify they must currently have gross assets not exceeding £15 million – for groups this applies to the assets of the group as a whole. More detailed information on the qualifying conditions for EMI can be found on the Revenue's website;

[www.inlandrevenue.gov.uk/shareschemes](http://www.inlandrevenue.gov.uk/shareschemes)

On 18 June 2001 the Chancellor announced consultation on doubling the gross assets limit in response to representations that the current limit prevents some companies in the higher risk sector from participating in EMIs. The results of the consultation show that there is unanimous support for increasing the limit.

The Government will consult further on specific ways of simplifying the tax computation for small companies, through aligning profits for tax purposes more closely with those reported in their accounts.

This builds on a technical note "A review of small business taxation", published by the Inland Revenue in March 2001. This note considered the scope to reduce compliance costs for small companies by aligning their corporation tax profits with their accounting profits.

Almost all respondents were pleased with the Government's approach to consulting on alignment. While reducing corporation tax compliance burdens was seen as an important issue, respondents often highlighted reducing the costs of payroll administration, which has been the subject of Patrick Carter's review, and tax cuts, where the Chancellor has restated his commitment to widen the 10p corporation tax starting rate band.

Respondents were keen to maintain incentives but also identified a number of possible areas where greater alignment could bring simplification. The Inland Revenue will be consulting further to explore whether these could offer regulatory savings while preserving incentives, maintaining fairness and guarding against tax loss. Further information on this consultation is included in the summary of responses which has been placed in the House of Commons and may be obtained by post from:

Inland Revenue (public enquiry centre),  
South West Wing,  
Bush House,  
The Strand,  
LONDON, WC2B 3NR.

It may also be downloaded from the Inland Revenue Internet site at:

[www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

Following consultation over the summer on further ways to ease the burden of VAT on small businesses, the Government has decided to introduce a new optional flat rate scheme for businesses with a taxable turnover of up to £100,000 a year. Traders who join the scheme can avoid having to account internally for VAT on all the individual goods they buy and sell and can instead simply calculate their net VAT liability as a percentage of their total turnover, including their exempt income.

The Government will also introduce reforms designed to simplify and increase participation in the VAT annual accounting scheme. This scheme allows the 900,000 businesses with a turnover of up to £600,000 a year to file their VAT returns annually rather than quarterly, improving their cash flow and reducing their compliance costs. These reforms include:

- simplifying the payment patterns for participants in the scheme; and
- removal of the existing 12 month qualifying period for businesses with annual turnover of up to £100,000.

As promised in the Chancellor's Productivity and Enterprise statement in June, HM Customs and Excise are pressing ahead with reforms to the VAT penalties system. These will ensure that small businesses are first offered advice and support when they are late with payments, rather than facing an automatic penalty.

### **Business Support Programme**

HM Customs & Excise will be introducing an outreach business support programme. This will be developed in light of the advice and practical assistance given by the revenue

departments to more than 21,000 businesses affected by the outbreak of Foot and Mouth Disease (FMD).

The 10 pence corporation tax starting rate is currently payable on annual profits of up to £10,000, with marginal relief (from the 20 pence small companies' rate) available where profits fall between £10,000 and £50,000. In his statement on 18 June 2001, the Chancellor announced that the 10 pence corporation tax rate band would be widened.

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## **C&E 1**

**27 November 2001**

### **TACKLING FRAUD AND SMUGGLING**

Building on the success of its efforts to tackle tobacco smuggling, the Financial Secretary, Paul Boateng, is today announcing that the Government will use the same strategic approach to crack down on other forms of criminal fraud.

The Government also announced the latest encouraging results from the first year of its Tackling Tobacco Smuggling strategy, which is designed to stop the growth of tobacco smuggling and put it into decline by 2003:

- HM Customs and Excise have achieved their key target for 2000-01 to hold the share of the UK market taken up by smuggled cigarettes to 21 per cent;
- in 2000-01, Customs seized 2.8 billion cigarettes destined for the illicit UK market, almost a billion more than were seized in 1999-2000;
- Customs have also cut the size of cross-Channel smuggling by 76 per cent, massively exceeding their target of a 10 per cent reduction;
- in just six months, the new network of x-ray scanners detected around 80 million cigarettes and 4.5 tonnes of hand-rolling tobacco;
- Customs investigators have broken up 43 major organised crime gangs involved in the large-scale smuggling and supply of cigarettes; and
- in 2000-01, Customs seized more than 10,200 cars, vans and lorries used by smugglers, almost double the number seized in 1999-2000.

Tackling Indirect Tax Fraud, a paper published today, reviews these results in detail, sets out the strategic principles underlying the Government's approach to tackling fraud, and outlines the steps being taken to tackle fraud in other areas.

Paul Boateng, Financial Secretary to the Treasury and the Minister who is responsible for Customs, said:

“The criminals engaged in fraud rob our public services of revenue, undermine honest businesses, and use the proceeds to fund other forms of organised crime. We are determined to crack down on fraud wherever it occurs, and our success this year in tackling tobacco smuggling shows that the right strategies can produce real and tangible results.”

## DETAILS

### Tackling Tobacco Smuggling

In March 2000, the Government announced its Tackling Tobacco Smuggling strategy, which is designed to put tobacco smuggling into decline by 2003. The key target for 2000-01 was to slow the previously rapid rate of growth in the UK illicit cigarette market and hold its share of the total UK market to 21 per cent.

The strategy provided £209 million for investment in almost 1,000 extra front-line staff and investigators and a national network of x-ray freight scanners designed to detect bulk consignments of smuggled tobacco. To make it easier to identify illicit goods, 'UK duty-paid' pack marks were also introduced on tobacco products, with associated offences for those found dealing in them.

The first-year results from the strategy show that Customs have met their key target to hold the illicit share of the UK market to 21 per cent. 2.8 billion cigarettes have been seized in 2000-01: 1.9 billion in the UK and 900 million en route to the UK as a result of joint operations with overseas agencies.

Customs have also achieved a 76 per cent cut in the amount of revenue lost from the cross-Channel smuggling of tobacco and alcohol, against a target of 10 per cent for 2001. 170 additional officers have been deployed specifically to tackle the 'bootlegging' gangs who run cross-Channel smuggling, and the results have been excellent, with smuggling of beer almost eliminated, smuggling of wine and spirits more than halved, and smuggling of hand-rolling tobacco cut by more than 80 per cent.

In addition, Customs investigators broke up 43 major organised crime gangs involved in the smuggling and supply of huge volumes of illicit cigarettes. In their first six months of operation to the end of July 2001, the network of x-ray scanners have also detected 79 million cigarettes and 4.5 tonnes of hand rolling tobacco, as well as 1.6 tonnes of cannabis and 46 kilograms of heroin.

Customs' policy on vehicle seizures is also having a significant effect – making smugglers realise the cost of using their vehicles to transport illicit goods. In 2000-01, Customs seized 10,219 vehicles from smugglers, up 96 per cent on the number seized in 1999-2000. Many such vehicles are often specifically designed or adapted to conceal large consignments of tobacco and other goods, for example:

- a German-registered camper van driven by a couple entering the UK on holiday, which – on investigation – was found to have 240,000 cigarettes concealed in false roof and floor panelling; and
- a lorry which – on investigation – was found to have a false wall in the cab's sleeping compartment behind which the driver had concealed 200,000 cigarettes.

The Government's approach to fraud

The Government today published a paper entitled Tackling Indirect Tax Fraud, which:

- explains why it is essential to tackle fraud to protect the revenue required for investment in essential public services, to defend legitimate businesses, to protect wider objectives on health and the environment, and to tackle organised crime;
- sets out the Government's strategic approach for tackling fraud, based on making an accurate assessment of the problem, setting clear objectives and targets for tackling it, identifying the strategies and resources required to achieve those targets, and delivering them;
- reviews the experience of the Tackling Tobacco Smuggling strategy, detailing the way the strategy was developed, how it was implemented, and the results it has achieved;
- outlines how this approach is being applied to other indirect taxes where the Government has made estimates of the levels of fraud, including alcohol, oils and parts of the VAT system; and
- announces a series of measures designed to tackle fraud in these other areas, including:
  - further improvements in the effectiveness of Customs' strategy for tackling missing trader VAT fraud;
  - intelligence-led increases in the rate of checks carried out on consignments of spirits entering the UK, and tougher controls on excise warehouses within the UK;
  - consultation on the costs, benefits and practicalities of introducing a tax stamps system for spirits, designed to assist in the identification of smuggled products;
  - deployment of additional resources to support new intelligence-led investigations into large scale diesel frauds;
- S introduction of tougher penalties to tackle the criminals engaged in the supply and use of illicit diesel;
- consultation on the introduction of an authorisation scheme for the distributors of rebated fuels and tougher obligations on them to improve control over fuels being sold for rebated use; and
- improvements in the chemical and colour marking of rebated fuel to deter misuse and enable easier detection.

To accompany this paper, the Government has also placed in the House of Commons library a technical paper, setting out the methodology which is used to produce estimates of fraud in relation to different indirect taxes.

## **NOTES FOR EDITORS**

Copies of Tackling Tobacco Smuggling (published March 22 2000) and Tackling Indirect Tax Fraud are available from the HM Treasury and HM Customs and Excise websites (addresses below).

Copies of Tackling Indirect Tax Fraud and Customs' technical paper on the methodology of fraud estimates, Measuring Indirect Tax Fraud, are also available on request from:

Analysis Division,  
 HM Customs and Excise,  
 7th Floor Central,

New King's Beam House,  
London SE1 9PJ.

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