

A decade ago, the Government set itself the twin aims of employment opportunity for all and a fair society in which everyone shares in rising national prosperity. These objectives are mutually reinforcing: work is the surest route out of poverty, while the tax and benefit system must work with public services to make sure that everyone is supported and given the chance both to achieve their potential and to reap the rewards of the modern world. The Government is also committed to a modern and fair tax system that ensures that everyone pays their fair share of tax. The 2007 Pre-Budget Report and Comprehensive Spending Review sets out how the Government will promote fairness and opportunity for all, including by:

- ensuring that all married couples and civil partners can benefit from double the inheritance tax allowance – £600,000 immediately, rising to £700,000 by 2010-11, in addition to the entitlement to full spouse relief;
- a major reform of capital gains tax, introducing a single rate of 18 per cent from April 2008, ensuring a more sustainable system that is straightforward for taxpayers and internationally competitive;
- announcing that, in addition to the £150 increase announced in Budget 2007, the child element of the Child Tax Credit will increase by a further £25 per year above indexation from April 2008 and by a further £25 above indexation from April 2010 and that the child maintenance disregard in the main income related benefits will increase to £20 by the end of 2008, with a further increase to £40 from April 2010, together lifting an estimated 100,000 children out of poverty;
- education spending in England will rise on average by 2.8 per cent a year in real terms between 2007-08 and 2010-11, meaning that UK education spending as a proportion of GDP is projected to increase from 4.7 per cent in 1996-97 to 5.6 per cent in 2010-11;
- increasing the Jobseeker's Allowance and Income Support rates for 16-17 year olds from April 2008 to align with the 18-24 rates, to help to simplify the system, and ensure a higher minimum level of income for this group;
- the national roll-out from April 2008 of the In-Work Credit for lone parents at a rate of £40, retaining a rate of £60 in London, ensuring a more substantial financial gain from moving into work;
- announcing the continuation of the Financial Inclusion Fund at £130 million over the CSR07 period and an £11.5m package of support for schools to teach children financial skills; and
- further reforms to modernise the tax system and protect tax revenues, including work to tackle avoidance.

5.1 In a constantly changing world, people have far greater opportunities than ever before. As barriers to trade and investment fall, and as technology improves, there is the potential for everyone in society to benefit. There is also, however, an increased risk of skills obsolescence and insecurity for a minority. The Government must therefore put in place policies to equip people to take advantage of change and to share in rising national prosperity.

5.2 The personal tax and benefit system is central to achieving the Government's aims of opportunity and fairness. Since 1997, the Government has therefore embarked upon a series of reforms to the tax and benefit system. These reforms have both improved incentives to work and save, and provided support in line with the principle of progressive universalism. This means providing support to all, with the greatest help offered to those who need it most.

5.3 Over the past ten years, the Government has delivered sustained economic growth alongside low inflation, while simultaneously increasing employment and tackling poverty. Compared with a decade ago:

- there are now 1.9 million fewer children in absolute poverty, and some 600,000 fewer in relative poverty;
- there are 2.6 million more people in work, and the Government has introduced the first ever National Minimum Wage, which was increased to £5.52 per hour from 1 October 2007; and
- there are 2.4 million fewer pensioners in absolute poverty and over 1 million fewer in relative poverty.

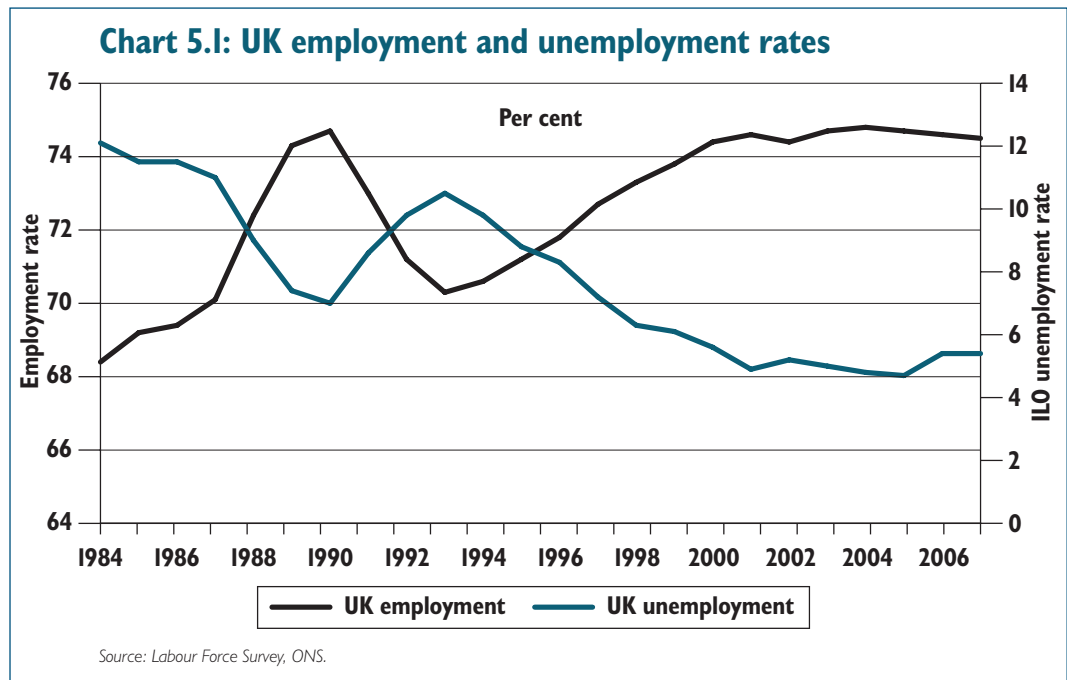
5.4 This chapter sets out how the Government is building on these achievements by:

- making progress on its objective of employment opportunity for all – the modern definition of full employment – through labour market policies and reforms to make work pay;
- ensuring that every child has the best possible start in life;
- promoting a fair and inclusive society free from discrimination, and promoting well-being and independence for older people; and
- delivering a fair and modern tax system that supports opportunity and fairness, in which people pay their fair share of tax, and all taxpayers operate on a level playing-field.

EMPLOYMENT OPPORTUNITY FOR ALL

Labour Market Performance

5.5 The last decade has seen strong labour market performance, with 2.6 million more people now in work than in 1997. As Chart 5.1 shows, the working age employment rate is now 74.4 per cent and the International Labour Organisation (ILO) unemployment rate is 5.4 per cent. The Jobseeker's Allowance (JSA) claimant count has almost halved, falling by 800,000 to around 850,000. The UK has the fourth highest employment rate of the EU27 countries (after Denmark, the Netherlands and Sweden), and an unemployment rate below that of France, Germany, Italy or the EU as a whole.



5.6 Some of the most significant improvements in labour market outcomes since 1997 have been seen by previously disadvantaged groups:

- the lone parent employment rate has increased by over 12 percentage points, from 44.7 per cent to 57.2 per cent;
- the number of people on incapacity benefits has stabilised and begun to fall for the first time in a generation; and
- there are 400,000 fewer children in workless households, a major contributor to lifting 600,000 children out of relative poverty.

5.7 The strength of the labour market over the last decade reflects the Government's policy to link improved incentives to work with active help for people at a disadvantage in the labour market, including through:

- integrating benefits and employment support through the roll-out of the Jobcentre Plus network;
- introducing tailored support for disadvantaged groups, such as the New Deal for the unemployed and for voluntary participants, and Pathways to Work to help people with a health condition or disability back to work; and
- introducing City Strategies to empower local partners to deliver locally tailored support.

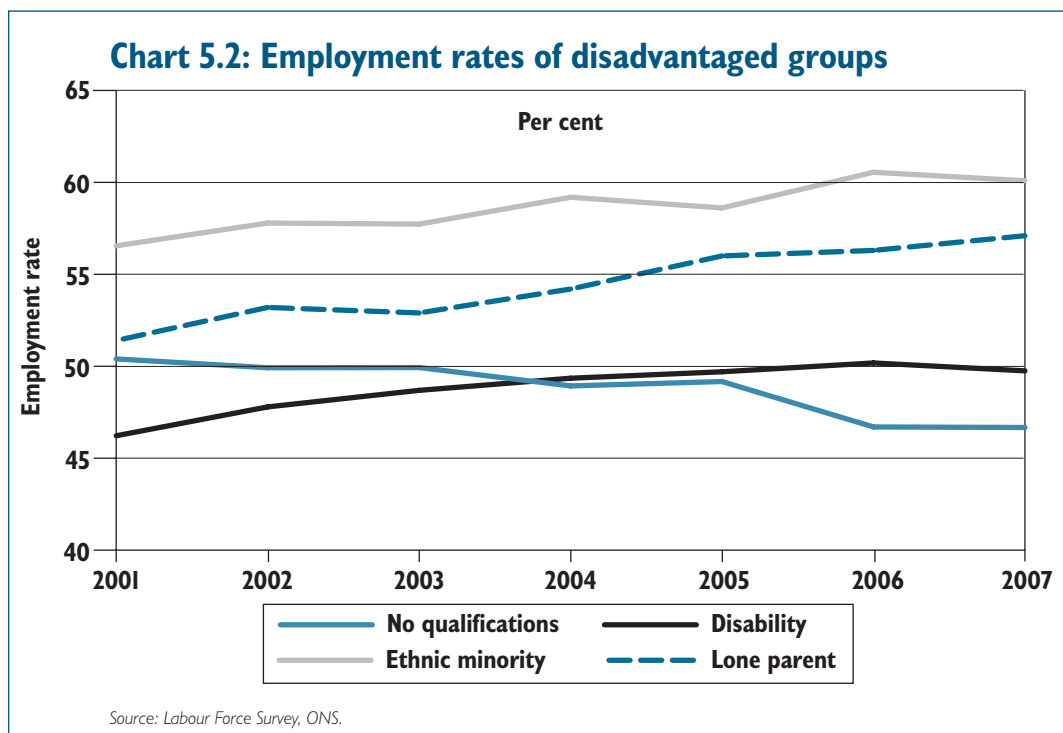
Building on success: Active Labour Market Policies

5.8 As Chart 5.2 illustrates, the employment rates of most disadvantaged groups have increased in the last few years. They remain, however, well below the national average, and the employment rate among the declining number of individuals with no qualifications has deteriorated. Moving towards the Government's long-term aspiration of an employment rate equivalent to 80 per cent of the working age population will require increased employment

among the most socially excluded groups and those facing the greatest labour market barriers. As part of the 2007 Comprehensive Spending Review (CSR), **the Government announces a new Public Service Agreement (PSA) to maximise employment opportunity for all**, which will drive further progress on raising the overall employment rate, as well as narrowing the gap between employment rates of disadvantaged groups (such as people with a disability, or lone parents) and the overall rate. The PSA will also drive reductions in the numbers on out-of-work benefits and the time spent on these benefits.

Principles of Welfare Reform 5.9 These new challenges require a new approach; one which builds on the successes of the last decade with further steps to deliver employment opportunity for all. The Government's approach to welfare reform is based on the five core principles set out at Budget 2007:

- rights and responsibilities underpinning the welfare reform agenda;
- a personalised and responsive approach to meet individual needs;
- retention and progression, with employment support focused not just on job entry but also on helping people remain and progress in work;
- working in partnership to make best use of expertise across the public, private and third sectors; and
- devolution and local empowerment, recognising the important role regions, cities and localities should play in identifying strategic priorities and delivering solutions.



In work, better off 5.10 Consistent with these principles, the Green Paper *In work, better off: next steps to full off employment*, published in July 2007, set out proposals for reforming active labour market support. The Green Paper invited views on proposals to:

- end entitlement to Income Support (IS) for lone parents with older children, with lone parents who move onto JSA receiving personalised support and advice to help them look for suitable work;

- introduce a new Flexible New Deal for all JSA claimants, offering more responsive and personally tailored support; and
- establish a more effective approach to contracting, designed to increase flexibility and cost-effectiveness, and achieve better outcomes for participants.

Support for lone parents 5.11 The Government's support for lone parents focuses on ensuring that work pays, that barriers to employment are addressed and that lone parents are made aware – in particular through Work-Focused Interviews with skilled Personal Advisers – of the employment opportunities available to them. Following the end of the consultation period, the Government will set out its plans for moving forward with the changes proposed in *In work, better off*. The Government is also introducing enhanced support for lone parents on benefits to move into employment in the interim, through new group interviews with personal advisers, guaranteed job interviews, enhanced pre-work training and an extension to Work Trials from two to six weeks.

In-Work Credit 5.12 Since April 2004, the Government has piloted the In-Work Credit (IWC), a £40 per week (£60 per week in London) payment for lone parents who have been on IS for more than 12 months, during their first 12 months back in work. The IWC further increases the financial benefit from a move into employment and is helping lone parents move away from benefit dependency. As announced in September 2007, the IWC will be rolled out nationally from April 2008 at a rate of £40, retaining a rate of £60 in London.

Support for the unemployed 5.13 A key aim of support for those who are unemployed is to prevent long-term detachment from the labour market by helping as many as possible into work in the early stages of their claim. The JSA regime has been particularly successful in achieving this, with regular interventions helping nearly 60 per cent of claimants leave the benefit within three months. **To strengthen this, the Government will, from January 2008, pilot a new rights and responsibilities seminar for those who have not found work after eight weeks on JSA.**

Support for people with a health condition or disability 5.14 Pathways to Work helps Incapacity Benefit claimants back to work by combining ongoing mandatory contact with skilled Jobcentre Plus Personal Advisers, and high quality employment, health and financial support. It will be rolled out across the country by April 2008 and will be delivered by the private and third sectors in the majority of the country. The first phase of contracts to deliver national rollout was awarded in September 2007 and the second and final phase will be awarded by the end of this year.

Employment and Support Allowance 5.15 From 2008, an integrated and simplified Employment and Support Allowance (ESA) will replace the current system of incapacity benefits for new claimants. The new ESA will have a clearer balance of rights and responsibilities, focusing on what a person can, rather than cannot, do. People with the most severe health conditions and disabilities will be supported by ESA at a higher rate and will not be required to participate in Pathways to Work, although they will still be able to choose to take up programme support, should they wish.

Support for ethnic minorities **5.16** The employment rate of ethnic minorities remains around 14 percentage points below the national rate, although, as Chart 5.2 showed, the rate has been increasing in recent years. Department for Work and Pensions (DWP) employment programmes have helped people from ethnic minority groups into 265,000 jobs, and DWP needs to ensure that its programmes continue to deliver high employment outcomes for all ethnic groups. The 2005 Pre-Budget Report announced that the National Employment Panel's Business Commission on Race Equality in the Workplace, chaired by Gordon Pell, Executive Chairman (Retail Markets), Royal Bank of Scotland, would advise the Government on measures to increase the recruitment, retention and progression of ethnic minorities in the private sector. The National Employment Panel will publish the Commission's report shortly and the Government will carefully explore its recommendations.

Personalised integrated skills and employment support **5.17** Chapter 4 set out the steps that the Government is taking to implement the recommendations of the Leitch Review. As part of this, the Government's successful welfare to work policies need to link up with skills provision to deliver more personalised support that helps low-skilled people access the training they need to stay and progress in work. Jobcentre Plus will work with the Learning and Skills Council in England and with the Devolved Administrations in Scotland and Wales, to ensure an integrated employment and skills service. This will include skills health checks, careers advice based on individual circumstances and needs, and access to training through skills accounts and Train to Gain. Through the Local Employment Partnerships announced in Budget 2007, employers will work with Jobcentre Plus and training providers to ensure that training meets employers' needs, and to provide support and employment opportunities once benefit claimants are ready for work. One example of this is the work that the West Midlands City Strategy consortium is doing with local employers to develop packages of up to eight weeks full-time training and work experience, aiming to guarantee job interviews for all those who complete training. **The Government will explore the most appropriate way to allow long-term jobseekers to participate in this training while retaining their benefits.**

Making work pay

The National Minimum Wage and Working Tax Credit **5.18** The Government is committed to making work pay by improving incentives to participate and progress in the labour market. Through the Working Tax Credit (WTC) and the National Minimum Wage (NMW), the Government has boosted in-work incomes, thereby improving financial incentives to work and tackling poverty among working people. From 1 October 2007, the NMW adult rate rose to £5.52. The Government is taking forward measures to toughen the NMW enforcement regime, including increased penalties for non-compliant employers and a fairer method of calculating arrears.

5.19 **The Government announces the uprating of all elements of the WTC, except for the childcare element, in line with the Retail Prices Index (RPI). It also confirms the Budget 2007 measures to increase the income threshold below which WTC can be claimed in full by £1,200 to £6,420 and the increase in the withdrawal rate for tax credits by two percentage points to 39 per cent. Also from April 2008, the disregard of tax credits in Housing Benefit will increase in line with RPI, to help enhance financial incentives to work.**

Tackling the unemployment trap **5.20** The unemployment trap occurs when those without work find the difference between in-work and out-of-work incomes too small to provide an incentive to enter the labour market. Table 5.1 shows that, since the introduction of the NMW in April 1999, the Government has increased the minimum income that people can expect when moving into work, thereby reducing the unemployment trap.

Table 5.1: Weekly minimum income guarantees (MIGs)

	April 1999	April 2008 ²	Percentage increase in real terms ³
Family ¹ with one child, full-time work	£182	£290	25%
Family ¹ with one child, part-time work	£136	£226	30%
Single person, 25 or over, full-time work	£113	£187	29%
Couple, no children, 25 or over, full-time work	£117	£221	48%
Single disabled person in full-time work	£139	£233	31%
Single disabled person in part-time work	£109	£169	21%

Assumes the prevailing rate of NMW and that the family is eligible for Family Credit/Disability Working Allowance and Working Tax Credit/Child Tax Credit. Full-time work is assumed to be 35 hours. Part-time work is assumed to be 16 hours.

¹Applies to lone parent families and couples with children alike.

²Assuming indexation in line with HM Treasury's economic forecasts.

³RPI growth is taken from HM Treasury's economic forecasts.

Tackling the poverty trap

5.21 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) measure the extent of the poverty trap by showing how much of each additional pound of gross earnings is lost through higher taxes and withdrawn benefits or tax credits. Table 5.2 shows the progress made in reducing the number of families facing MDRs in excess of 70 per cent since April 1997. Increased incidence of MDRs of between 60 and 70 per cent is primarily due to the extension of financial support for families through tax credits, so that far more families benefit, including low-income families without children.

Table 5.2: The effect of the Government's reforms on high marginal deduction rates

Marginal deduction rate ¹	Before Budget 1998	2008-09 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	30,000
Over 80 per cent	300,000	150,000
Over 70 per cent	740,000	195,000
Over 60 per cent	760,000	1,880,000

¹Marginal 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 disability benefits.

Note: Figures are cumulative. Before Budget 1998 figures based on 1997-98 estimates caseload and take-up rates; estimates for the 2008-09 system of tax and benefits are based on tax credits caseload in April 2007, and earlier data for housing and council tax benefits.

GIVING EVERYONE THE BEST START IN LIFE

5.22 The Government believes that every child's potential should be fulfilled. A decade ago it set out its key priorities of improving education and eradicating child poverty, and, through a sustained commitment to these goals, has made substantial progress in improving the life chances of all children. The Government is determined to build on the progress of the last decade, starting with a series of steps in the CSR07 period to improve outcomes and reduce child poverty for the current generation of children, raising their aspirations and attainment and thereby tackling the root causes of future disadvantage.

Tackling child poverty **5.23** Child poverty is both an unacceptable injustice in itself and a key factor leading to a wide range of other poor outcomes, both in childhood and adulthood. Some 600,000 children have been lifted out of relative low-income poverty since 1998-99. The announcements made in Budget 2007, including **increasing the child element of the Child Tax Credit (CTC) by £150 above earnings indexation in April 2008**, are expected to lift around 200,000 children out of poverty. Rates of Child Benefit and the disabled child elements of the CTC will rise in line with RPI from April 2008.

5.24 To support the ambitious goal of eradicating child poverty in a generation, **the Government confirms its PSA to halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020**, with a national target to reduce the number of children in relative low-income households, supplemented by indicators to track progress on reductions in the number of children in absolute low-income, and the number in relative low-income and material deprivation. This combined indicator recognises that tackling child poverty means improving the standard of living for children, and captures the extra costs faced by some families, for example, those with disabled children.

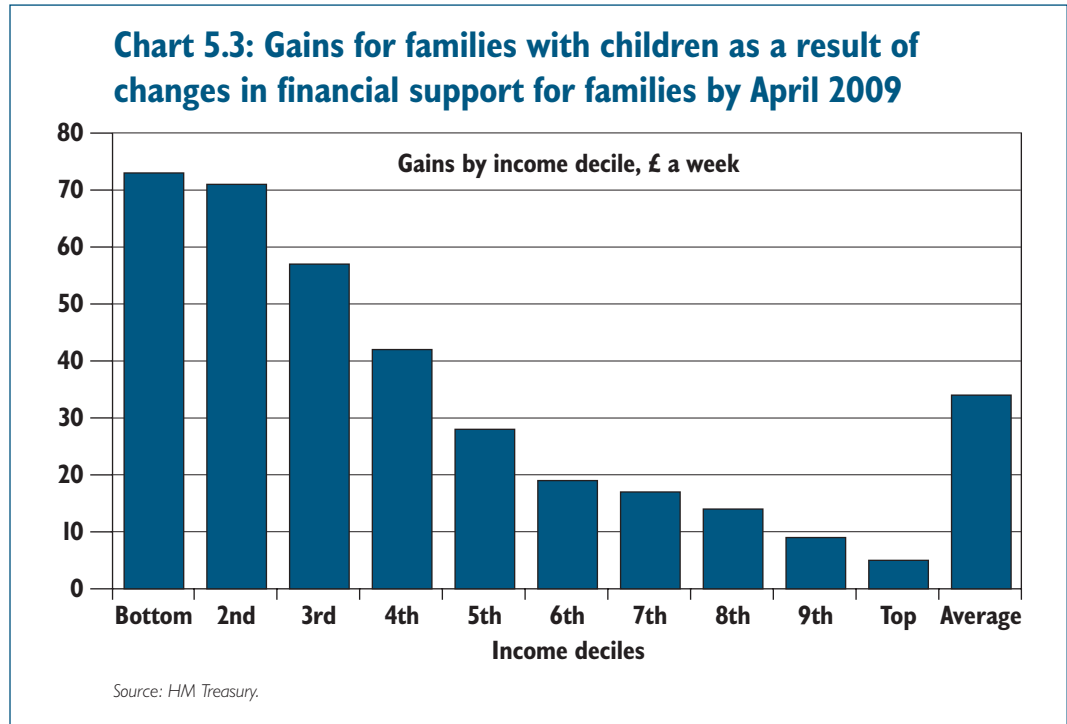
5.25 In addition to the measures set out below to improve outcomes for children and young people, which will be key to eradicating child poverty, this Pre-Budget Report and Comprehensive Spending Review is announcing further financial support measures that will lift around 100,000 further children out of poverty by:

- **raising the child element of the CTC by £25 a year above earnings indexation in April 2008, in addition to the Budget 2007 commitment to increase the child element by £150 and raising it again by a further £25 above indexation in April 2010; and**
- **substantially increasing the child maintenance disregards in income-related benefits.**

5.26 In December 2006 the Government published the White Paper *A new system of child maintenance*, which set out proposals to establish a new and radically different organisation – the Child Maintenance and Enforcement Commission (C-MEC) – to administer child maintenance. **To improve incentives for parents to make arrangements for the benefit of their children, by the end of 2008, when the Government expects parents with care and claiming benefit no longer to be required to apply for child maintenance, the child maintenance disregard in IS, income-based ESA and income-related JSA will rise from £10 to £20 per week, where maintenance is being paid. In April 2010 the disregard will rise further to £40 per week.**

5.27 **The increase in the maintenance disregard in IS to £20 will be accompanied by an increase in the maintenance disregard in Housing Benefit and Council Tax Benefit, from the current £15 per week to a full disregard.** This will help to ensure that work pays for lone parents receiving maintenance income.

5.28 Chart 5.3 shows the effect by income decile of the Government's reforms to financial support for families with children. It shows the reforms have been consistent with the principle of progressive universalism, providing support to all families, with the greatest help offered to those with the greatest need.



Education and schools 5.29 An excellent education system is the key building block of a society in which everyone is able to make the most of their potential throughout life, and in recognition of this the Government will continue to prioritise education in the CSR07 period. Education spending in England will rise on average by 2.8 per cent a year in real terms between 2007-08 and 2010-11, meaning that UK education spending as a proportion of GDP is projected to increase from 4.7 per cent in 1996-97 to 5.6 per cent in 2010-11. On top of the education settlement announced at Budget 2007, the 2007 CSR announces:

- an additional £250 million in total over the CSR07 period to help ensure that all children at school are ready to learn and able to benefit from truly personalised services and support; and
- an additional £200 million of capital investment to accelerate the primary capital programme and newly build or entirely refurbish an additional 75 schools by 2010-11. Together with further funding of £550 million available within the existing Department for Children, Schools and Families (DCSF) CSR07 settlement, this will allow at least one school to be newly built in every authority by 2010-11.

5.30 To ensure that these increases in investment deliver real improvements in outcomes, the Government announces a new PSA to raise the educational achievement of all children and young people, focusing efforts on raising standards at all levels of learning and development, with stretching national targets from early years to age 19. Alongside this, the Government announces a new PSA to narrow the gap in educational achievement between children from low-income and disadvantaged backgrounds and their peers. Recognising that this is a persistent problem, which must be tackled to raise social mobility, the PSA sets national targets focused on individual pupil-level progression and will drive improvement for the most vulnerable, such as young people in care. Key measures that the Government will put in place to deliver these PSAs include:

- raising the quality and standards of early education and care, through the **introduction of the Early Years Foundation Stage and greater graduate leadership of teaching in early years settings;**
- **extending one-to-one tuition in English and maths to 300,000 underachieving children a year in each subject by 2010-11;**
- **pilots to personalise all children's learning and help all to progress;** and
- enabling every young person to achieve more by the age of 19 than ever before by **providing new qualifications including, from 2008, introducing new lines of diplomas.**

Work-life balance 5.31 The Government is committed to ensuring that parents have greater choice and flexibility in balancing work and family life. In April 2007 the Government increased paid maternity leave from six to nine months, and has a goal to increase it to 12 months by the end of this Parliament.

Early years 5.32 Building on the commitments set out in *Choice for parents, the best start for children: a ten year strategy for childcare*, **this Comprehensive Spending Review allows the Government to deliver a nationwide network of 3,500 Sure Start Children's Centres, one in every community by 2010** (details in Chapter 8).

Improving health and well-being of children and young people 5.33 Good physical, mental and emotional health is a key aspect of well-being, and healthy children are more likely to benefit from their education. Improving children's health will also lead to better outcomes throughout life. Recognising these benefits, **the Government therefore announces a new PSA to improve the health and well-being of children and young people**, which commits to reverse long-term trends on childhood obesity and includes action to improve the experience of parents of disabled children with the services they receive. Key measures to achieve this PSA include:

- promoting healthy food and activity choices through early years settings, schools and in families **and a £240 million subsidy of the direct costs of providing a healthy school lunch;**
- **providing an additional £60 million funding for targeted mental health work in schools;** and
- **additional provision of £280 million from the DCSF to provide 40,000 short breaks for severely disabled children**, further resource to match this support for disabled children from the NHS settlement, and the development of a "Core Offer" to improve the responsiveness of local services to the needs of disabled children and young people and their families.

Improving children's and young people's safety 5.34 Staying safe is vital for children and young people's happiness, health, well-being and achievement. Harm to children can have a fundamental impact both during their childhood and lasting effects into adult life. Improving children's safety means tackling a wide range of issues – abuse and neglect, accidental injury and death, bullying, crime and anti-social behaviour, as well as ensuring a stable home environment. Therefore **the Government announces a new PSA to improve children and young people's safety**, which will focus on reducing bullying, reducing unintentional and deliberate injuries to children, and reducing the number of preventable deaths. Measures the government will take to improve the safety of children include:

- implementing the most robust vetting and barring system ever, to ensure a safe children's workforce;

- helping parents and children to understand and manage risks to safety;
- improving the effectiveness of Local Safeguarding Children's Boards;
- raising public awareness and understanding of safety issues; and
- providing better support for children and young people who have suffered harm.

Increasing the number of young people on the path to success

5.35 Most young people in the UK today are seizing the opportunities provided by a changing world and making a successful transition to adulthood. Participation and attainment in education are on an upward trend, and rates of teenage pregnancy are now at their lowest level for more than twenty years. However, for a minority of young people, particularly those who are disadvantaged, vulnerable and do not have support from peers and parents, challenges remain. Research clearly shows that young people who experience one poor outcome typically experience several. For instance, those who are not in education, employment or training (NEET) are disproportionately likely to misuse drugs and alcohol, become parents at a young age, and are more likely to suffer from persistent spells of disadvantage later in life.

5.36 The Government wants to ensure that every young person makes a successful transition to adulthood. To achieve this goal the Government recognises the need for a much greater alignment and integration of the various public services and programmes for young people. To deliver the necessary cross-government focus and coordination, **the Government therefore announces a new PSA to increase the number of children and young people on the path to success.** The PSA includes national targets to reduce the number of young people who are NEET, and to tackle teenage pregnancy, alongside a focus on reducing drug and alcohol use by teenagers, and getting more young people engaged in positive activities. Delivery of this PSA will include:

- reforming accountability and delivery – for example by **merging a range of existing funding programmes** – to ensure the integration of services for young people and improvements in outcomes for the most vulnerable in particular;
- **supporting active participation of young people and their families in the commissioning, design and delivery of services;**
- **developing the capacity of the workforce at all levels**, particularly through leadership and management, attracting people into the youth workforce and a common platform of skills and training; and
- **encouraging more young people to stay in education**, in advance of the Government's plans to introduce compulsory participation in education and training for all 16 and 17 year olds.

JSA and IS for young people

5.37 The Government also today announces an increase in the JSA and IS rates for 16-17 year olds to align with the 18-24 rates. This will help to simplify the system, and will ensure a higher minimum level of income for this group.

A FAIR AND INCLUSIVE SOCIETY

5.38 The Government is committed to building a fair, tolerant and inclusive society, based on a conviction that no group should be excluded from the benefits of increasing prosperity. Ensuring that everybody has real and substantive opportunities to fulfil their ambitions and

protecting and supporting vulnerable groups are key priorities for the CSR07 period and beyond.

Empowering and protecting marginalised groups

Equality 5.39 The Government's objectives on equality are reflected throughout the new performance management framework in the key areas of health, education and employment. Alongside this wider commitment, **the Government announces a new PSA to address the disadvantage that individuals experience because of their gender, race, disability, age, sexual orientation, religion or belief**, by enabling people to benefit from opportunities, and participate in the economic and social success of communities, through a measurable reduction in inequalities. The PSA includes commitments to reduce discrimination in employment and increase participation in public life by under-represented groups. It also seeks to reduce the gap between men's and women's wage rates.

5.40 The new Government Equalities Office will promote the equalities agenda throughout Government, acting as a centre of knowledge and expertise on equalities. The Government will also shortly respond to the final report of the Equalities Review¹, setting the direction for a joined up approach to equalities.

5.41 The Equalities and Human Rights Commission came into being on 1 October 2007. This independent Non-Departmental Public Body will work towards reducing inequality, eliminating discrimination, strengthening good relations between people, and protecting human rights.

Support for vulnerable adults

5.42 The Government is committed to improving life chances for the most vulnerable groups in society. Too often, vulnerable adults fall between different service providers and are not given the support that they require. Without the firm foundations of a job and a home, individuals suffering from multiple disadvantages risk a lifetime of exclusion. To provide the opportunity for these groups to get onto the path to a more successful life, **the Government announces a new PSA to increase the proportion of socially excluded adults in settled accommodation and employment, education or training**. The PSA focuses on four at-risk client groups: care-leavers, offenders under probation supervision, adults with secondary mental health problems and adults with moderate to severe learning difficulties.

5.43 This PSA will be delivered in partnership across central government, with local authorities and their partners having a key responsibility in tackling exclusion. The priority actions for the Government in delivering the PSA will be:

- to help the most socially excluded adults to access and maintain settled accommodation, across both the social and private sectors;
- to improve access to employment for excluded groups and improve the availability of quality education and training;
- to ensure specialised support is delivered for at risk groups; and
- to ensure design, delivery and governance of key public services support the most excluded.

¹ *Fairness and Freedom: The Final Report of the Equalities Review*, The Equalities Review, 2007.
www.theequalitiesreview.org.uk

Promoting saving, financial capability and inclusion

5.44 The Government seeks to support saving and asset ownership for all, from childhood, through working life and into retirement. Since 1997, the Government's savings strategy has focused on improving the environment for saving, providing adequate incentives for saving, and empowering individuals with the capability to make the right saving choices. In addition, the Government aims to promote financial capability and inclusion to ensure that people have the right skills to manage their finances, and have access to the appropriate products and services.

Child Trust Fund 5.45 The Child Trust Fund was introduced in April 2005 to promote saving and financial education, and to ensure that in the future all young people have a financial asset at 18. Under the scheme, all newborn children receive £250 to be invested in a long-term savings or investment account, and children from lower-income families receive £500. Over 3 million children now have a Child Trust Fund account open in their names. The Government will make further payments at age seven, and additional payments for looked after children. The Child Trust Fund will also be used as a focus for financial education in schools.

Individual Savings Accounts 5.46 Individual Savings Accounts (ISAs) have been successful in developing and extending the saving habit and ensuring a fairer distribution of tax relief. To build on this success, Budget 2007 announced **a new, simpler and more flexible regime from April 2008, making ISAs available indefinitely, introducing a new ISA structure and raising the annual investment limits**. Every adult will have an annual allowance of £7,200. Up to £3,600 of this can be saved in cash with one provider. The remainder can be invested in stocks and shares with either the same or another provider. Savers will also be able to transfer money saved in cash ISAs into stocks and shares ISAs, and all Personal Equity Plans will automatically become stocks and shares ISAs.

Saving Gateway 5.47 The Government has successfully piloted the Saving Gateway to explore the use of matching – a Government contribution for each pound saved – to encourage saving among lower-income households. Over 22,000 participants took part in the pilots, achieving a total of over £15 million in saving. The pilots confirmed the success of matching as a targeted incentive for lower-income savers. They also demonstrated clear benefits around promoting regular saving and bringing individuals into contact with financial institutions.

5.48 **The Government announces that it is taking forward feasibility work into the system requirements to enable the rollout of the Saving Gateway.** Subject to the results of this work, further announcements on rollout will be made in the Budget.

Financial capability 5.49 Many consumers are not confident in making decisions about their money. In January 2007, the Government set out its aspirations for increasing consumers' capability over the next 10-20 years². This includes ensuring that:

- all adults have access to high-quality generic financial advice;
- all children and young people have access to a planned and coherent programme of personal finance education; and
- there is a range of Government programmes focused on improving financial capability, particularly to help those who are most vulnerable to the consequences of poor financial decisions.

² Financial Capability: the Government's long-term approach, HM Treasury, January 2007.

Thoresen Review of Generic Financial Advice and next steps **5.50** To take forward this agenda the Government established an independent review, led by Otto Thoresen, to research and design a national approach to generic financial advice; and a ministerial group, led by the Economic Secretary, to develop a cross-government approach to financial capability. The Thoresen review has begun consumer testing of generic advice and **will publish an interim report later in the Autumn, setting out principles for a national approach, and a final report in the New Year.** The Government will respond to the review and publish its action plan in Spring 2008.

Box 5.1: Ministerial Group on Financial Capability

The group brings together Ministers from key departments to deliver an action plan for incorporating measures to improve financial capability into a range of Government services, from early years to pensions.

Since the group began its work, the Government has announced a dedicated economic well-being and financial capability programme, as part of Personal, Social, Health and Economic education (PSHE) in secondary schools, to begin in September 2008. In addition, the Government has announced an £11.5 million package of support for schools to teach children financial skills over the Spending Review period. A substantial part of this money will be used to develop Child Trust Fund branded teaching resources.

The group will continue to work, considering plans to embed financial capability within adult skills programmes and initiatives to tackle social exclusion; use Children's Centres to deliver appropriate information and advice; develop the evidence-based information and communications strategy for pensions and personal accounts to support retirement decision-making; and ensure public services can best make use of generic financial advice.

Financial inclusion **5.51** Access to financial services is a key element in ensuring that everyone can participate in, and benefit from, the modern economy. The report of the Financial Inclusion Taskforce last month shows that good progress continues to be made towards the goal shared by the Government and the banks to halve the number of adults without access to a bank account, with over 800,000 people brought into banking between 2002-03 and 2005-06.

5.52 Over 100 credit unions and community development finance institutions have now received funding from the Government's £42 million Growth Fund and over 37,000 affordable loans have been made to financially excluded people. Taskforce working groups have been established to consider how to further scale up third sector lenders, and to take forward work on access to insurance.

5.53 Good progress is also being made by the Department for Business, Enterprise and Regulatory Reform (BERR) in delivering the £47.5 million face-to-face money advice fund, with over 500 advisors recruited and trained, and more than 44,000 clients advised to date.

5.54 In March 2007, the Government announced a new policy framework for the spending period 2008-2011, including the extension of the Financial Inclusion Taskforce.³ **The Government announces the continuation of the Financial Inclusion Fund at £130 million over the CSR period.** The fund will include continuing support for financial inclusion initiatives aimed at helping vulnerable people with problem debt, including BERR's money advice projects, and the DWP Growth Fund. A ministerial working group on financial inclusion will develop a detailed action plan, to be published later in the year.

³ *Financial Inclusion: the way forward*, HM Treasury, March 2007.

Box 5.2: Personal over-indebtedness

Personal credit is an important financial tool; an efficient, competitive and fair consumer credit market is a key component of a successful economy. The Government's macroeconomic framework has delivered stability and rising prosperity, and people are now more confident in taking on personal debt.

As set out in Annex A, total personal debt stands at almost £1.3 trillion, a figure far outweighed by almost £4 trillion of household financial assets (over £1 trillion in cash and bank deposits). However, the Government recognises that a small minority of people do experience problems when they take on too much debt, and that targeted action is needed to help those at risk, or already in difficulty. The Government has identified five specific areas for action:

- helping those most vulnerable to the causes and consequences of problem debt, using the £130 million Financial Inclusion Fund for 2008-11 to support the continued provision of free money advice for financially excluded people, and widen access to affordable credit;
- improving consumers' financial decision-making to prevent problem debt, through the financial capability action plan to be published in the spring, including the Government's response to the Thoresen Review of Generic Financial Advice;
- recognising the role of saving to increase personal financial resilience, including promoting access to savings opportunities through ISAs and the Child Trust Fund, and taking forward feasibility work into the system requirements to enable the roll-out of the Saving Gateway;
- acting on evidence of specific indicators of problem debt, including mortgage repossessions and Individual Voluntary Arrangements (IVAs), building on the regulatory framework through the FSA's work reviewing mortgage regulation, and Insolvency Service work to agree a protocol for IVAs by the end of the year; and
- setting out action taken across Government to tackle over-indebtedness, including a new review of current evidence on the drivers of problem debt, in the annual report of the Ministerial Group on Over-indebtedness, to be published later this year.

Supporting people in later life

5.55 Pensioner poverty was an important issue facing the Government in 1997, with 2.8 million pensioners in relative poverty,⁴ and growing inequality between rich and poor pensioners. The Government's support for pensioners is based on the principle of progressive universalism, providing support for all, with more for those who need it most.

Support for pensioners **5.56** Through measures such as increases in the basic State Pension, the introduction of Pension Credit, Winter Fuel Payments, and free television licences for the over 75s, the Government has sought to provide support for pensioners, and is spending around £11 billion a year more in real terms on pensioners now than in 1997. As a result of measures implemented since 1997, the poorest third of households will be on average £2,050 a year, or around £39 a week, better off by 2008-09. Overall, pensioner households will be on average £1,450 a year, or around £28 a week better off over the same period. Pensioners also benefit from free eye tests, free prescriptions and free bus travel. Pensioners are now less likely than the population as a whole to be in poverty: over 2 million pensioner households have been

⁴ i.e. having an income below 60 per cent of median income after housing costs, as set out in the *Households Below Average Income: an analysis of the income distribution series*, Department for Work and Pensions.

lifted out of absolute poverty, and over 1 million have been lifted out of relative poverty since 1997.

5.57 In common with much of the world, the UK's population includes an increasing proportion of older people. To support older people and ensure the UK adapts to and benefits from the ageing society, **the Government announces a new PSA to tackle poverty and promote greater independence and well-being in later life.** The PSA commits to improvement in areas that older people themselves have said are important, such as employment opportunity, levels of health in later life, and continuing to ensure pensioners share in the rising prosperity of the nation. The Government will:

- continue to tackle pensioner poverty, particularly through payment of pensions and benefits in the short term, and through implementing pensions reform and improving financial capability in the long term;
- support and encourage longer working lives, and help older people to be active and healthy as they age;
- support older people to live independently, if they so choose, by allowing users to shape the social care they want; and
- work to increase older people's satisfaction with both their homes and their neighbourhood.

Uprating of Pension Credit

5.58 The Pension Credit is the foundation through which the Government provides security for the poorest pensioners and rewards those with modest savings. The Government announced in the Pensions White Paper⁵ that it would uprate the Pension Credit standard minimum guarantee in line with earnings over the long term to ensure that pensioners share in rising national prosperity. The Government will increase the Pension Credit standard minimum guarantee to £124 for single pensioners and to £189 for couples in 2008-09, demonstrating the Government's continued commitment to tackling pensioner poverty.

Voluntary Class 3 National Insurance contributions

5.59 A key element of the Government's state pension reforms was to reduce the number of qualifying years required to receive a full basic State Pension to 30 from 6 April 2010. However, during debate on the Pensions Bill, concerns were raised that some individuals, particularly women and carers, may still have gaps in their national insurance contribution records (meaning that they would not be eligible for the full amount of the basic State Pension) and that the reforms would create a divide between those retiring before and after 6 April 2010. To address this, proposals were made that individuals should be able to buy voluntary contributions for a greater number of missed years than the system currently allows. The Government will continue to analyse the options in terms of fairness, affordability and simplicity, and to hold informal discussions with stakeholders.

State Second Pension (S2P)

5.60 Following the Pensions White Paper, the Pensions Act 2007 puts in place proposals to reform the State Second Pension so that it becomes a simple, flat-rate weekly top-up to the basic State Pension by around 2030, providing a clearer foundation for private saving. To ensure this timetable is met, while delivering the personal tax reforms announced at Budget 2007, the Government will introduce the **Upper Accruals Point for the State Second Pension in 2009.**⁶ **Legislation will be introduced in the NICs Bill to ensure there is no delay in State Second Pension simplification.**

⁵ *Security in retirement: towards a new pensions system*, Department for Work and Pensions, May 2006.

⁶ This was originally intended for 2012, to coincide with wider pension reforms.

- Financial Assistance Scheme** **5.61** The Financial Assistance Scheme was established in 2004 to assist those who lost significant amounts when their pension schemes started winding up between 1 January 1997 and 5 April 2005 as a result of the sponsoring employer becoming insolvent. Budget 2007 announced an extension of the scheme so that all members of affected pension schemes receive assistance of 80 per cent of the core pension rights accrued in their scheme. The Secretary of State for Work and Pensions also set up a review, whose interim report was published in July, to look at making best use of assets within these schemes. **The Government subsequently committed to match any increase in assistance levels that could be realised by the review**, with the goal of moving towards 90 per cent of expected core pension for all recipients. The review will report by the end of the year.
- Encouraging retirement saving** **5.62** The stability of the economy over the past decade has allowed individuals to plan for retirement with greater confidence. Building on this success, the Government is committed to developing a retirement framework that empowers individuals to take personal responsibility for decisions regarding how much to save and when to retire. The Government's state pension reforms – including improving the outcomes for women and carers from 2010, linking the basic State Pension to earnings from 2012,⁷ and raising State Pension Age in line with life expectancy over the longer term – will together provide a simpler and more generous state pension foundation to support private saving. Meanwhile DWP continues to make progress on reforms to the private pension system. The response to the Personal Accounts White Paper was published in June.⁸
- Pensions tax relief** **5.63** Successive Governments have provided generous tax relief to encourage pension saving to produce an income in retirement. This relief, worth an estimated £17.5 billion in 2007-08, is an important part of the Government's approach to encouraging future pensioners to save for their retirement.
- Pensions tax modernisation** **5.64** The Government has sought to remove obstacles to saving imposed by complexities in the pensions tax regime and in April 2006 (A-day) introduced a new, simplified regime for the taxation of pensions. Since A-day, the Government has worked with industry to identify areas of friction in the new system to simplify the task for providers to comply with the rules and to ensure practice remains in line with original intentions. A range of further simplifications are announced today, as set out in Chapter 4.
- 5.65** **Today the Government has issued draft legislation for anti-avoidance measures preventing the use of scheme pensions and annuities to enable inheritance of tax-relieved savings and changes to the inheritance tax (IHT) rules to ensure that UK tax-relieved pensions funds in overseas schemes continue to be protected from IHT.**
- Innovation in the annuity market** **5.66** Following a commitment in the 2006 Pre-Budget Report, the Government has consulted widely with industry on tax barriers to the further development of 'hybrid' decumulation products, which combine an element of drawdown with a guaranteed income. The Government has decided not to change the tax rules as this would add complexity to the tax system and potentially benefit only a small number of consumers with large pension savings.

⁷ As stated in the Pensions White Paper: "Our objective, subject to affordability and the fiscal position, is to do this in 2012, but in any event by the end of the next Parliament at the latest. We will make a statement on the precise date at the beginning of the next Parliament."

⁸ *Personal Accounts: a new way to save – Summary of the responses to the consultation*, DWP, June 2007.

Box 5.3: Open Market Option review

Under the Open Market Option, (OMO) an individual can shop around to get the best annuity deal to provide their retirement income, rather than simply taking the annuity offered by their pensions saving provider. The Government announced at the 2006 PBR that HM Treasury and DWP would work together with a range of stakeholders to improve the operation of the OMO for consumers.^a The review has now concluded and full details, together with all the measures agreed with industry, consumer and other stakeholder groups, are available at http://www.hm-treasury.gov.uk/pbr_csr/pbr_csr07_index.cfm These measures include:

- the Pensions Advisory Service (TPAS) setting up a web-based structured choice tool to guide people through their retirement income options;
- work by the Financial Services Authority (FSA) with firms on OMO processes – particularly in terms of delays in OMO transfers and compliance with the Treating Customers Fairly principle;
- work by DWP with stakeholders to facilitate development of better-focused information for consumers about their annuity options.

Stakeholders will continue to be involved in developing and implementing the measures, and the operation of the OMO will be monitored so improvements can be assessed.

^a *The Annuities Market*, HM Treasury, December 2006.

**Helping
vulnerable
households to
heat their homes**

5.67 The Government is committed to ensuring that the most vulnerable households – both pensioners and others – can afford to heat their homes to an adequate standard, and has made substantial progress, cutting fuel poverty in England by 50 per cent, an estimated 2.7 million households, between 1996 and 2007, despite energy price rises since 2004.

5.68 The Government's approach addresses the key determinants of fuel poverty through:

- financial support, for example Winter Fuel Payments to pensioners (support equivalent to taking an additional 500,000 out of fuel poverty);
- help for low-income households to take advantage of the benefits of a competitive energy market by switching supplier; and
- enhancing energy efficiency through continuing the Warm Front programme (which has spent over £1.6 billion since 2000, assisting 1.4 million vulnerable households) and plans to expand the Carbon Emissions Reduction Target (CERT) obligations on energy suppliers. Subject to final decisions, the combination of Warm Front and the CERT Priority Group will enable spending on energy efficiency and other measures for low-income households to rise in the CSR07 period compared to the previous spending period.

A MODERN AND FAIR TAX SYSTEM

5.69 A modern and fair tax system encourages work and saving, responds to business developments and globalisation and supports the provision of world-class public services to ensure that everyone has the opportunities they deserve in a changing world. The Government will continue to develop a modern and fair tax system that provides a level playing-field for all taxpayers.

Modernising the personal tax and benefit system

5.70 The personal tax and benefit system is at the heart of the relationship between the citizen and the Government. Personal taxation provides a significant proportion of the tax revenue used to fund the public services that are the foundations of a flexible economy and a fair society. An important innovation has been the introduction of the Child and Working Tax Credits, which as part of that system provide support to nearly six million families and ten million children. The tax and benefit system can also be used to provide incentives to work and save. The personal tax and benefit system therefore underpins many of the themes set out in this chapter.

5.71 The introduction of tax credits has greatly reduced the effective tax burden on many families, increasing incentives to work as well as reducing poverty. For example, from April 2008, a single-earner family with two children will pay no net tax until their income reaches £20,440. A couple with no children will pay no net tax until their income reaches £11,700. The comparable figures for 1997-98 were £14,400 for a single earner family with two children, and £4,210 for a couple with no children.

Budget 2007 personal tax reforms **5.72** Since 1997, the Government has undertaken a comprehensive programme of reforms to the tax and benefit system with the aims of simplifying the system, improving incentives to work, eradicating child poverty, supporting families and ensuring security for all in old age. Budget 2007 announced the next stage in these reforms. Once fully implemented, these reforms and the new measures announced today mean that by April 2009:⁹

- a single-earner family with two children on male mean earnings (£35,900) will be £320 a year better off, with the direct tax burden on the family falling to 20 per cent, lower than any year of the 1980s and 1990s;
- a single-earner family with two children on median earnings (£27,000), will be around £540 a year better off;
- a single-earner couple without children on half median earnings (£13,500) and receiving the WTC will be £175 a year better off;
- the numbers of children in relative poverty will be around 200,000 lower;
- around 600,000 fewer pensioners will pay income tax than would otherwise be the case, so that in total only 43 per cent of pensioners will be taxpayers. By April 2011, no pensioner aged 75 or over will pay any tax until their income reaches £10,000; and
- the tax burden on small unincorporated businesses will be reduced by £50 million in 2009-10, as the self-employed pay income tax and national insurance contributions (NICs) on their business profits.

Income tax and NICs **5.73** **The income tax personal allowances for under 65s and NICs thresholds and limits, except the upper earnings and profit limits, will be raised in line with the RPI from April 2008. As announced at Budget 2007, age-related personal tax allowances for the over-65s will be raised by £1,180 above inflation, and the national insurance upper earnings and profit limits will increase by £75 above inflation per week in 2008-09 before they are aligned with the increased level at which higher rate tax begins to be paid in 2009-10.** This alignment will ensure that people paying higher rate tax under the new thresholds will be no worse off than under the current arrangements. There will be no changes to the NICs rates for employers and employees, or to the profit-related NICs paid by the self-employed.

⁹ Assuming indexation in line with HM Treasury's economic forecasts

Income tax and NICs review **5.74** At Budget 2006, the Government announced that it would conduct a review of the case for further aligning the administration of the income tax and NICs systems. The findings of the review are published today. The review has examined ways, within the current policy framework, of improving the administrative alignment of the two systems for employers and the impact this might have on individuals. It has particularly focused on the proposal, often put forward by employers, that NICs should operate more like tax, by being moved onto an annual basis and being collected cumulatively. The report concludes that potential savings for employers are lower than might have been expected, there would be mixed outcomes for lower-paid individuals, and alignment would come at a high exchequer cost. The Government has therefore concluded that the benefits of administrative alignment of the tax and national insurance systems do not outweigh the costs.

5.75 The review did, however, identify a number of areas where improvements to the current systems could be made, reducing administrative burdens on business. These include improving and aligning HM Revenue and Customs (HMRC) guidance on tax and NICs, collecting tax on benefits in kind through the payroll, and improving the collection of national insurance for the self-employed. HMRC will consult on how best to introduce improvements in each of these areas. Further details are in Chapter 4.

Inheritance tax **5.76** The inheritance tax (IHT) spouse relief rules mean that there is no IHT paid on assets passing between married couples or civil partners. Many people therefore leave all their assets to their spouse or civil partner, and do not make use of their individual tax-free allowance of £300,000. The Government will therefore make the IHT system fairer by ensuring that if a person's tax-free allowance is not used on their death, it can be transferred to their surviving spouse or civil partner, **enabling every married couple or civil partnership to benefit from double the tax-free allowance – £600,000 this year – in addition to spouse relief.**

5.77 Furthermore, to ensure that people who have lost a spouse or civil partner prior to today can also benefit, **the Government will extend this entitlement to the three million existing widows, widowers and bereaved civil partners.**

5.78 Following the announcement made at this year's Budget and the changes announced today, **the IHT allowance will rise by April 2010 to £350,000 for individuals and £700,000 for couples.** In future years the Government will consider both house prices and retail price inflation when setting the appropriate IHT allowance.

Capital gains tax reform **5.79** The Government is committed to ensuring that the UK has an internationally competitive capital gains tax (CGT) system that promotes flexibility and competition, and responds to the changing needs of investors. Building on the Government's ongoing programme of tax reform, the Government announces a major reform of the taxation of individuals' capital gains. This will put the CGT regime on a more sustainable footing and help investors plan for the long term. **For disposals on or after 6 April 2008 there will be a single CGT rate of 18 per cent, resulting in a more straightforward system for taxpayers.** As part of this new system the annual exempt amount (currently £9,200) will remain in place, but taper relief and indexation allowance will be withdrawn. HMRC have today published further details of the reform package, and will immediately begin discussion on implementation with interested parties.

Residence and domicile review **5.80** The Government today announces the completion of the review of the residence and domicile rules that apply to personal taxation. The Government has concluded that the existing arrangements make an important contribution to the UK's competitiveness, by making the UK an attractive place for skilled people to come to work and do business and where non-domiciles contribute £4 billion of tax on UK earnings. Reforms are required to make the current arrangement operate fairly:

- firstly, from April 2008 resident non-domiciles who have been in the UK for longer than seven out of the past ten years will only be able to access the remittance basis of taxation on payment of an annual charge of £30,000, unless their unremitted foreign income or gains are less than £1,000;
- secondly, people who use the remittance basis of taxation will, from April 2008, no longer be entitled to income tax personal allowances. Again, people with small amounts of foreign income will be exempt;
- thirdly, the Government will introduce changes to the residence rules so that days of arrival in and departure from the UK will count toward establishing residence. This brings the UK into line with international practice; and
- finally, the Government will amend the current rules to remove flaws and anomalies that allow individuals using the remittance basis of taxation to sidestep UK tax, where it is due on foreign income and gains.

5.81 The Government will consult on a wider range of options and specifically on whether people who have been resident in the UK for longer than ten years should make a greater contribution, and on the detail of these proposals before the changes are introduced to ensure non-domiciles pay their fair share of UK tax.

Modernising the business tax system

5.82 The Government believes that the tax system should ensure fairness between all business taxpayers and support the Government's wider economic and social objectives. This Pre-Budget Report and Comprehensive Spending Review announces changes to the tax system to ensure that it remains modern and relevant for businesses in a changing world.

Sale of leasing companies **5.83** The Government has become aware of a flaw in the legislation governing the sale of leasing companies, which is resulting in an unintended tax charge and could prevent genuine commercial restructuring. **The Government will therefore bring forward legislation to remove this unintended consequence with retrospective effect from 5 December 2005, the date of the original legislation's introduction.**

Hedging currency risk **5.84** **The Government will amend regulations on the tax treatment of loans and derivatives that hedge a company's currency risk from investment in foreign operations, to ensure only the "hedged" position is taxed.** The changes, to have effect from 1 January 2008, represent a short-term solution to technical problems that have been highlighted through discussions with business. **The Government will consult on draft regulations to implement more extensive changes, to take effect from January 2009.**

Stamp Duty Reserve Tax intermediary relief **5.85** Earlier this year the Government announced that it intends to extend the changes made to stamp duty intermediary relief to shares admitted to trading on Multilateral Trading Facilities. However, the FSA has first to consider the regulatory implications of the proposed changes. The FSA is expected to report the initial findings of its consultative process shortly, and a further update will be given following that report.

North Sea Oil 5.86 The latest round of discussions on the North Sea fiscal regime with the oil and gas industry ended in September 2007. The Government is considering the conclusions from these discussions and will publish a consultation document examining the options for further action in due course.

Modernising tax administration

5.87 HMRC continues to work on transforming its relationship with citizens and business. This includes a range of simplification measures which make it clearer and more straightforward for businesses to comply with their obligations. Further detail on the simplification agenda can be found in Chapter 4 of this Pre-Budget Report and Comprehensive Spending Review. The measures set out in this section are designed to make it easier for taxpayers to comply with the tax system while at the same time making certain HMRC collects the right amount of tax.

Review of Business Links 5.88 HMRC is on track in delivering its commitment to the 2006 Review of Links with Large Business and today publishes *Making a Difference: Clarity and Certainty*. This announces a new Advance Agreements Unit to provide certainty to business on significant inward investment and corporate reconstructions, provides clarity on how HMRC and business will develop a shared understanding of risk and how issues will be resolved more speedily and efficiently, and announces the extension of individual Relationship Managers to more large businesses.

Review of HMRC powers, deterrents and safeguards 5.89 HMRC's review of powers, deterrents and safeguards seeks to provide modern tools for the department, and corresponding safeguards for taxpayers. The first major changes as a result of the review – the modernisation of the law on criminal investigations by HMRC and on penalties for incorrect returns – were introduced in Finance Act 2007. Consultations on compliance assurance checks, taxpayer safeguards and on payments and repayments of tax were held in summer 2007. Publication of responses and further consultations, including on further modernisation of penalties, is planned for later this year.

Excise reviews and appeals 5.90 Following a consultation held over the summer, the Government will shortly be publishing draft legislation which will extend statutory rights to an independent review and appeal against a wider range of decisions made by HMRC on excise duty matters.

Electronic vehicle licensing 5.91 To facilitate the use of Electronic Vehicle Licensing, from 1 September 2008 the requirement to display an up-to-date tax disc at all times will be waived for the first five working days following re-licensing.

Consultation on Gift Aid 5.92 Budget 2007 announced that the Government would consult with the charitable sector to identify possible measures to increase giving through Gift Aid. The consultation closed on 30 September 2007 following seven regional and national events, and submissions from a wide range of local and national third sector organisations. A summary of responses to the consultation will be published on the HM Treasury website later in the autumn. Ahead of next year's Budget, the Government will explore, with charitable sector representatives, a number of areas raised during the consultation.

Protecting tax revenues

5.93 The vast majority of business and individual taxpayers in the UK comply with their tax obligations. By contrast, avoidance of tax by a minority leads to distortion in competitive markets, unfairness between individuals and pressure on the public finances. The Government will continue to support the compliant majority while responding to avoidance

and fraud with timely and targeted action. The Government will also continue to defend the tax system robustly against challenges under EU law.

Tackling tax avoidance 5.94 The disclosure regime, introduced at Budget 2004, allows the Government to respond to avoidance swiftly and in a targeted fashion. To identify and tackle more effectively those who make use of marketed avoidance schemes, the Government will consult on options to improve the operation of Scheme Reference Numbers.

5.95 The Government will continue to protect future revenues by introducing measures:

- **countering the exploitation of interest relief by individuals;**
- **amending the disguised interest rules to prevent abuse;**
- **ensuring that scheme pensions and lifetime annuities are used solely to provide an income for life and not as a means of diverting tax-relieved pension savings into inheritance, in line with Government principles that the generous tax regime for pensions supports saving for an income retirement;**
- **tackling deferral of corporation tax through structural management of employer contributions to pensions schemes; and**
- **taking action to prevent the avoidance of tax through leasing plant and machinery.**

Stamp Duty Land Tax 5.96 To ensure that where there is a transfer of an interest in a property held within an investment partnership there is no charge to stamp duty land tax (SDLT), the Government will legislate to amend the stamp duty land tax anti-avoidance provisions introduced in Finance Act 2007. This follows representations made to the Government from the property investment sector. The amendment to the legislation will apply retrospectively from the date Royal Assent was given to Finance Act 2007.

5.97 Following on from action in 2006-07 on SDLT avoidance, the Government will continue to tackle SDLT avoidance, while ensuring that the competitiveness of the UK is not harmed. The Government will consult interested parties later this year on how to extend the disclosure regime to high value residential property transactions.

5.98 In addition, the Government believes that the use of special purpose vehicles to reduce stamp duty liability on high value residential property is unfair to the compliant majority who pay SDLT on the purchase of such property in the UK. The Government will also consult interested parties later this year on the issues involved in implementing a measure to address this issue.

Income shifting 5.99 The Government believes it is unfair that some individuals arrange their affairs to gain a tax advantage by shifting part of their income, from dividends or partnership profits, to another person who is subject to a lower rate of tax.

5.100 The Government will be launching a consultation shortly on draft legislation to prevent such income shifting, with the intention that this legislation will take effect from 2008-09. The Government aims to ensure, through consultation, that only arrangements intended to reduce tax, rather than commercial arrangements, are affected by this legislation and that the administrative burdens of the legislation are minimised.

- Removal of NICs exemption 5.101** The Government acknowledges the role that a long-standing NICs exemption for holiday pay paid via a third party has had in addressing the problems of labour mobility in the construction industry, as well as helping to form the basis for additional benefits and collective bargaining agreements for employees in this industry. However working time regulations now ensure holiday entitlement is preserved in all sectors even where individuals are employed for short periods of time, and the Government has become aware that the exemption is now being used by employers outside construction solely to reduce their and their employees' NICs liability, contrary to the original policy intention. **Therefore it has been announced today that schemes in the construction industry will maintain this exemption for five years to allow time to adjust to these changes, while for all other schemes the exemption is removed from 30 October 2007.**
- Life insurance 5.102** The Government will consult on legislation, effective from today, that will prevent life insurance companies benefiting from tax relief for expenses in respect of reinsured business which have been met by the reinsurer of that business.
- Tackling VED evasion 5.103** To assist in the fight against vehicle excise duty (VED) evasion, **the Government today strengthens VED enforcement powers**, to include motorists driving unlicensed vehicles and parking in certain areas where enforcement is not currently permitted. **Therefore, in addition to public roads, from 1 September 2008, VED enforcement will also cover vehicles parked in public places that are not intrinsically part of a private dwelling, where a Statutory Off-Road Notification has not been made.**
- MTIC fraud 5.104** New estimates of Missing Trader Intra Community (MTIC) fraud, published today, show that the scale of attempted fraud fell by up to £1½ billion in 2006-07, to between £2¼ billion and £3¼ billion. The estimated impact on VAT receipts fell to between £1 billion and £2 billion. These reduced estimates demonstrate the success of the Government's strategy for tackling MTIC fraud. HMRC will take further steps to apply both criminal and civil sanctions to those who are found to be knowingly involved in fraudulent trading.
- Alcohol and tobacco 5.105** Good progress has been made to reinforce the Tackling Tobacco Smuggling and Alcohol Compliance Strategies. These measures will make life harder for smugglers and other fraudsters though the Government recognises the ongoing challenges to further reducing the illicit market share as organised crime continues to target this area.