TRANSACTIONS OF GENERAL GOVERNMENT (excluding portfolio liabilities)

TABLE 13

Not seasonally adjusted

£ million

		Transactions in external assets					Transactions in external liabilities								
									Borrowing from banks etc overseas by						
		Official reserves	Inter-government loans by UK	Export credit	Other assets	Total transactions in assets	IMF	Inter-government-loans to UK	HM Government	Local authorities1	Treasury bills	Non-interest bearing notes	Other liabilities	Total transactions in liabilities	Net transactions
		AIPA	HEUC	HEPF	HHIC	HEUI	AION	HEUL	HCJN	HEUQ	AARB	HCHO	HHIB	HEUR	HCQQ
1981		2 419	9	305	-221	2 512	-145	-73	-232	60	-110	82	213†	-206†	2 306†
1982		1 421	30	53	-244	1 260	-163	-87	-	40	132	36	449	407	1 667
1983		607	12	-235	-255	129	-36	-97	-	64	31	-12	-527	-576	-447
1984		908	65	-603	-205	165	-	-103	-	41	144	-21	-110	-49	116
1985		-1 758	52	-573	-209	-2 488	-	-87	-	85	-13	28	8	21	-2 467
1986		-2 891†	40†	-344†	-232†	-3 427†	-	-87†	-	99†	231†	-248†	199	194	-3 233
1984	1	77	13	-126	-149	-185	-	-	-	40	34	71	-9†	137†	-48†
	2	857	19	-144	-26	706	-	-	-	-11	88	-122	195	150	856
	3	279	13	-149	-	144	-	-	-	-5	10	58	171	234	378
	4	-305	20	-184	-30	-500	-	-103	-	17	12	-28	-467	-570	-1 070
1985	1	90	2	-53	-162	-124	-	-	-	3	-6	122	66	185	61
	2	-607	9	-180	-16	-793	-	-1	-	-6	-29	-72	156	47	-746
	3	-49	7	-71	-12	-125	-	-	-	45	39	-21	-67	-4	-129
	4	-1 192	34	-269	-19	-1 446	-	-86	-	43	-17	-1	-147	-207	-1 653
1986	1	-580	-	106	-70	-544	-	-	-	47	-34	93	105	211	-333
	2	-296	12†	-130	-40	-454†	-	-1	-	43	2	-52	138	130	-324
	3	-2 321	17	-141	-39	-2 484	-	-	-	18	94	-13	66	165	-2 319
	4	306†	11	-179†	-83†	55	-	-86†	-	-9†	169†	-276†	-110	-312	-257

1. Including Northern Ireland central government.

The Budget: 17 March 1987

The following are the proposed changes in taxation as set out in the *Financial Statement and Budget Report 1987-88* (HMSO March 1987) (Price £6.90)

Income tax

The basic rate of income tax will be reduced to 27 per cent.

The main income tax personal allowances will be increased in line with the statutory indexation provisions (based on the increase of 3.7 per cent in the RPI in the year to December 1986). This will mean that:

—the single person's and wife's earned income allowances will rise from £2,335 to £2,425;

—the married allowance will rise from £3,655 to £3,795;

—the age allowance will rise from £2,850 to £2,960 (single) and from £4,505 to £4,675 (married) and the income limit from £9,400 to £9,800;

—the additional personal allowance and widow's bereavement allowance will rise from £1,320 to £1,370.

For those aged 80 and over the age allowance will be increased by twice the amount due under statutory indexation to £3,070 (single) and £4,845 (married).

The allowance for the blind will be increased from £360 to £540.

The higher rates of income tax will be charged as follows:

Rate of tax per cent	Taxable income £
40	17 901-20 400
45	20 401-25 400
50	25 401-33 300
55	33 301-41 200
60	over 41 200

Car benefit scale charges will be increased by 10 per cent from 6 April 1988.

Profit-related pay

An income tax relief will be introduced for employees in profit-related pay (PRP) schemes which meet certain conditions and which have been registered with the Inland Revenue. The maximum amount of PRP eligible for relief will be £3,000, or 20 per cent of total PAYE pay, whichever is lower. Relief will be given on half the eligible amount.

Excise duties

The duty on unleaded petrol will be reduced by the equivalent of about 5p a gallon (including VAT).

On-course betting duty will be abolished.

The rates of duty on gaming machine licences will be increased by between 25 and 28 per cent.

Vehicle excise duty

The rates of duty on farmers' heavy goods vehicles over 7.5 tonnes will be increased by between 5 and 34 per cent. The rates of duty for trade licences will be increased to £85 for cars and £17 for motor cycles. a new taxation class will be created for recovery vehicles. The duty rate will be £50.

Inheritance tax

From Budget day the threshold will be increased from £71,000 to £90,000 and the number of chargeable bands reduced from seven to four. The new scale will be as follows:

Rate of tax per cent	Band of chargeable value £000
0	0-90
30	90-140
40	140-220
50	220-330
60	Over 330

Lifetime gifts of "interests in possession" in settled property will be exempt from inheritance tax if the donor survives for seven years. Measures against abuse will be incorporated.

Trust property in which there is an interest in possession will not be taxed on the death of a life tenant if the property is put into a heritage maintenance fund not later than two years after the death.

Property accepted in lieu of tax may be valued at the date of the offer, and interest will cease to accrue on that date, at the option of the offeror.

From Budget day, the rate of business relief on transfers of holdings of more than 25 per cent (other than control holdings) in unquoted companies will be increased from 30 to 50 per cent. Companies whose shares are traded on the Unlisted Securities Market will from Budget day be treated for inheritance tax purposes in the same way as companies with a full listing on the Stock Exchange.

Business taxation

The small companies' rate of corporation tax will be reduced to 27 per cent. The rate of advance corporation tax (ACT) will go down automatically to 27/73rds as a consequence of the reduction in the basic rate of income tax. The main rate of corporation tax for the financial year 1987 will be 35 per cent.

All companies, building societies and other bodies chargeable to corporation tax will become liable, after a phasing-in period, to pay the tax nine months after the end of the accounting period for which the tax is due.

From Budget day there will be changes in the tax treatment of companies' capital gains. They will be taxed without adjustment, other than the indexation that applies to post-1982 gains, at the rates of corporation tax applying to other profits (including, where appropriate, the small companies' rate) and credit for payment of ACT will be allowed against liability to tax on them.

From 1 April 1987 credit for any foreign withholding tax actually paid or deemed to be paid on interest received by banks on any new loan made by them to a non-resident will be allowed only against corporation tax due on the profit from that loan. This rule will apply to existing loans with effect from 1 April 1988.

From 1 April 1987 dual resident companies will not be allowed a double deduction for interest payments. This change will not apply to trading companies.

Legislation will be introduced for a new scheme, known as Pay and File, to streamline assessment and collection of corporation tax. The scheme will be implemented when the necessary computerisation is complete.

Oil taxation
Two relaxations to the expenditure relief rules are proposed:

companies may elect to have up to 10 per cent of the costs of developing certain new fields set against their petroleum revenue tax (PRT) liabilities on existing fields;

certain research expenditure which is not specifically related to a particular oil field may after three years be set against PRT liabilities in any field.

A minor technical change is also proposed to the rules for allocating oil allowance.

One effect of Section 16 of the Oil Taxation Act 1975 is to restrict the ability of oil companies to set off payment of ACT against tax due on ring-fence profits. It is proposed that such companies should be allowed limited carry-back of surrendered ACT. It will also be possible for a 50/50 joint venture to surrender ACT to a ring-fence company owned by the venture.

Where an oil extraction company uses the issue of preference shares to raise capital which is not used for oil extraction purposes, there will be restrictions in the extent to which ACT paid on certain dividends on those preference shares can be set off by the company against ring-fence profits.

Business Expansion Scheme
Two changes will be made to the Business Expansion Scheme:

for investments made in the first half of the tax year, the investor will be able to opt for part of the relief to be given for the previous year;

the rules governing the special relief for film production will be relaxed.

Pensions
In the light of the reform of social security, a new tax regime for personal pensions (ie pensions taken out by an individual independently of his employer) will be introduced, to replace and extend the present, broadly similar, legislation for retirement annuities. The new regime will come into effect next year. The main features will be:

benefits based on the actual return from invested contributions (money purchase);

no limits on pension benefits;

a tax-free lump sum, subject to a limit;

annual contributions limited to 17.5 per cent of earnings (more for people over 50) with employers free to contribute within the limit;

tax relief for contributions, tax exemption for fund income and gains.

Employees will be able to contract-out of the State Earnings Related Pension Scheme (SERPS) by joining a personal pension scheme, to which the DHSS will pay a minimum contribution.

Employers will be able to establish simplified occupational schemes which may be "final salary" or "defined contribution". Under the new social security rules, the latter may be "contracted out money purchase" schemes.

There will be greater transferability between different types of pension arrangements.

Members of occupational pension schemes will be able to pay additional voluntary contributions—on which tax relief will be available up to the present limits—to arrangements outside their employer's scheme.

A number of changes in current pensions law and practice will be made, to counter certain types of exploitation, particularly by high earners. These include:

a limit on lump sums of £150,000;

changes in the rules on "final salary" for pension purposes;

changes in the rules relating to accelerated accrual of benefits.

Training
Employees who are about to change their jobs will be exempted from income tax on the cost of training in new work skills provided by their employer.

Employee share schemes
The 1980 and 1984 employee share option schemes will be changed to make it possible, in the event of a takeover, for participants to exchange their existing share options for options over shares in the acquiring company.

Capital gains tax
The capital gains tax annual exempt amount is to be increased in accordance with the statutory indexation provisions from £6,300 to £6,600 in the case of individuals, and from £3,150 to £3,300 in the case of most trusts.

The ceiling for retirement relief will be raised from £100,000 to £125,000.

Lloyd's: reinsurance to close
Legislation is proposed to bring the tax treatment of members of Lloyd's into line with the normal tax treatment of provisions for outstanding liabilities made by ordinary insurance companies and of comparable provisions made by other financial traders. These proposals will affect the tax treatment of Lloyd's reinsurance to close and will first apply to premiums payable in respect of the 1985 Lloyd's account closing at 31 December 1987.

PAYE and subcontractor schemes
Changes will be made to the PAYE and subcontractor deduction schemes, including the charging of interest where formal assessments have had to be made of tax deducted under these schemes. This follows recommendations of the Keith Committee.

VAT
From 18 March 1987 the registration limits will become £21,300 per annum and £7,250 per quarter.

Subject to the Government's obtaining the necessary derogation from the European Community, businesses with annual turnover below £250,000 are to be given the option of accounting for VAT on the basis of payments received and made. This optional system of cash accounting is intended to come into effect on 1 October 1987.

An optional system of annual accounting for VAT is to be introduced with advance payments based normally on the previous year's tax so that businesses with annual turnover below £250,000 would need to send only one return to Customs each year.

The period within which businesses must notify and be registered for VAT will be extended to 30 days.

The simpler VAT schemes for retailers will be made available for use by many more small and medium-sized businesses.

The rules on VAT input tax deduction by partly exempt traders are to be revised so as to curb tax avoidance and to prevent distortion of competition.

VAT relief for charities will be extended to certain welfare vehicles used by hospices to transport the terminally ill; to specialised location and identification equipment used by rescue and first aid services; to goods donated for export by a charity for relief of distress or animal welfare; to installing or adapting bathroom, washroom or lavatory facilities for the handicapped in charity residential homes; and to drugs and chemicals directly used by a charity in medical care or research.

Direct effect of changes in taxation

	£ million		
	Estimated effect on receipts in: 1987-88		1988-89
	Changes from an non-indexed base	Changes from a indexed base	Changes from a indexed base
INLAND REVENUE			
Income tax			
1 Reduction of 2p in basic rate	− 1910	− 1910	− 2690
2 Increase in single allowance of £90 and married allowance of £140	− 610	—	—
3 Increase in additional personal allowance and widow's bereavement allowance of £50	− 5	—	—
4 Increase in age allowance of £110 (single) and £170 (married) and income limit of £400	− 80	—	—
5 Further increase in age allowance of £110 (single) and £170 (married) for those aged 80 and over	− 10	− 10	− 10
6 Increase in blind person's allowance of £180	*	*	*
7 Increase in basic rate limit of £700 to £17,900	− 60	—	—
8 Changes to further higher rate thresholds	− 5	+ 40	+ 80
9 Profit-related pay	*	*	− 50
10 Fringe benefits — car scale	—	—	+ 30
11 Income support paid to the unemployed and to strikers	—	—	*
12 Approved employee share schemes — takeovers	*	*	*
13 Payroll giving to charities — increase in donation limit to £120 a year	*	*	*
14 Legislation on Lloyd's reinsurance to close	—	—	†
15 Apportionment of income etc of close companies	*	*	*
16 Foreign partnerships — removal of possible anomaly	*	*	*
Income tax and capital gains tax			
17 Business Expansion Scheme changes	− 5	− 5	− 5
18 Amendment to offshore fund rules	*	*	*
Income tax and corporation tax			
19 Personal pensions	*	*	− 25
20 Other pensions changes	*	*	− 40
21 Friendly societies	*	*	*
22 Keith Committee — PAYE and subcontractors	+ 5	+ 5	+ 45
23 Interest payments between related companies	*	*	*
24 Increase in exemption limits for trade union provident funds	*	*	*
25 Capital allowances — extension of assured tenancies relief	*	*	*
26 Relief for the costs of training	*	*	*
Income tax, corporation tax and capital gains tax			
27 Securities — Financial Services Act consequentials	—	—	—
Income tax, corporation tax, capital gains tax, inheritance tax and stamp duties			
28 Unit trusts — Financial Services Act consequentials	—	—	—
Corporation tax			
29 Reduction in rate of ACT to 27/73rds of the amount of the distribution	− 290	− 290	− 130
30 Reduction in small companies' rate to 27 per cent	*	*	− 45
31 Harmonisation of payment dates for corporation tax	*	*	+ 100
32 Taxation of indexed gains in full at normal corporation tax rates	*	*	+ 80
33 ACT set-off against tax on companies' gains	*	*	− 20
34 Dual resident companies — non-allowance of double deduction	*	*	+ 125
35 Foreign withholding tax on interest received by banks	*	*	+ 20
36 Relaxation of set-off of surrendered ACT against ring fence profits	− 20	− 20	− 20
37 ACT set-off against ring fence profits (certain preference share dividends)	—	—	+ 15
38 Building societies — groups of companies and capital gains	*	*	*
39 Pay and File	—	—	—
40 Amendment to controlled foreign companies legislation	+ 10	+ 10	+ 10
Corporation tax and capital gains tax			
41 Financial futures and traded options	—	—	*

Direct effect of changes in taxation—*(continued)*

	£ million		
	Estimated effect on receipts in: 1987-88		1988-89
	Changes from a non-indexed base	Changes from an indexed base	Changes from an indexed base
Oil taxation			
42 10 per cent cross field allowance	− 5	− 5	− 15
43 Petroleum revenue tax relief for certain research expenditure	—	—	—
44 Oil allowance — final adjustments	*	*	*
Capital gains tax			
45 Indexation of annual exempt amount	—	—	—
46 Retirement relief	—	—	*
Inheritance tax			
47 Changes to rates and bands	− 90	− 75	− 170
48 Business relief and Unlisted Securities Market	*	*	*
49 Abolition of lifetime charge on interest in possession trust property	*	*	*
50 Heritage maintenance funds	*	*	*
51 Property accepted in lieu of tax	*	*	*
Stamp duties			
52 Changes to stamp duties and the reserve tax	*	*	*
TOTAL INLAND REVENUE	**−3080**	**−2265**	**−2720**
CUSTOMS AND EXCISE			
Value added tax			
53 Revised treatment of tour operators' margins	—	—	+ 20
54 New rules on deduction of input tax by partly exempt traders	+ 300	+ 300	+ 400
55 Cash accounting for small businesses	− 100	− 100	− 10
56 Increase in registration limits	*	—	—
57 Revised registration requirements	− 15	− 15	− 25
58 Annual accounting for small businesses	—	—	− 25
59 Simplified retail schemes	—	—	—
60 Removal of loophole on imported services	*	*	+ 5
61 Reliefs for charities	− 5	− 5	− 5
Excise duties			
62 No change in rate of spirits duty	—	− 25	− 30
63 No change in rate of beer duty	—	− 60	− 70
64 No change in rate of duty on cider and perry	—	*	*
65 No changes in rates of wine and made-wine duties	—	− 20	− 20
66 No change in rates of duty on petrol etc	—	− 190	− 210
67 No change in rate of duty on derv	—	− 50	− 55
68 No change in rates of minor oil duties	—	− 5	− 5
69 No change in rates of tobacco products duties	—	− 105	− 110
70 Duty differential in favour of unleaded petrol	*	*	*
71 Abolition of on-course betting duty	− 20	− 20	− 20
72 Increase in rates of gaming machine licence duty	+ 20	+ 20	+ 20
TOTAL CUSTOMS AND EXCISE	**+ 180**	**− 275**	**− 140**
Vehicle excise duty			
73 No change in VED on car, light van and main lorry rates	—	− 95	− 100
74 Increases in certain other VED rates	+ 5	+ 5	+ 5
75 Recovery vehicles	*	*	*
76 VED enforcement measures	*	*	+ 5
Other			
77 Bus fuel grants	—	+ 5	+ 5
TOTAL VED AND OTHER	**+ 5**	**− 85**	**− 85**
TOTAL CHANGES IN TAXATION	**−2895**	**−2625**	**−2945**

* = Negligible — = Nil † Details of measure subject to consultation, so no estimate possible at present

ANNEX

How the figures have been calculated
The table gives the direct effects of changes in taxation. Estimates are rounded to the nearest £5 million. "Negligible" means less than £3 million.

The direct effect of a tax change is the difference between the yield of the tax which would arise on the basis of the rates of tax, allowances, etc prevailing before the Budget (the pre-Budget regime) and the yield after the changes proposed in the Budget (the post-Budget regime).

For Inland Revenue taxes (and VED) the difference in yield for each tax is generally calculated by applying the pre- and post-Budget tax regimes to the same tax base. This base is the post-Budget base—that is the levels of income, profits etc forecast for future years on the assumption that all the measures proposed in the Budget take effect. In certain cases, however, the difference in yield also takes account of changes in taxpayers' behaviour arising from the tax change where those behavioural changes can be directly attributed to the change in tax.

For Customs and Excise taxes and duties, the calculation takes into account, where possible, the effect of the tax change on the pattern of consumers' expenditure and the resulting impact on other expenditure taxes but makes no allowance for secondary effects: in particular, it is assumed that total consumers' expenditure does not change. A fuller description of the methodology is in Economic Trends, March 1980.

The table shows the expected change in receipts of tax resulting from the Budget proposals. Additional information is provided in the commentary below for those proposals where the effect on tax liabilities in the first complete year to which the change applies (full year effect) is substantially different from the effect on receipts in either 1987-88 or 1988-89; or where the impact of the proposal is expected to build up over a period of years.

The figures in the first column of the table show the direct effect of the Budget proposals on receipts in 1987—88. Budget proposals are compared with a non-indexed base—that is, with the pre-Budget regime of allowances, thresholds and rates of duty at 1986—87 money levels.

The figures in the second column show the direct effect of the Budget proposals on receipts in 1987—88, measured against an indexed base. The indexed base for 1987—88 is obtained by increasing 1986—87 allowances, thresholds and rates of duty by 3.7 per cent, the increase in the RPI over the year to December 1986.

The figures in the third column show the direct effect on receipts in 1988—89, also measured against an indexed base. For this comparison, both the Budget proposals and the indexed base for 1987—88 have been further indexed by the forecast movement in the RPI between the fourth quarters of 1986 and 1987.

The estimates shown in the table do not reflect changes in the tax base arising from changes in money incomes and in the general level of prices and other economic variables which may result from the proposed tax change. These secondary effects are, of course, taken into account in estimating the impact of the tax change on the PSBR. The base for the post-Budget forecast of each tax takes account of the effects, direct and secondary, of all the measures announced in the Budget.

The table does not include certain measures announced and implemented before Budget day. These are the amendment of the material interest test for approved employee shared schemes and other purposes, tax relief for the cost of seconding employees to educational bodies, the tax treatment of invalid care allowance paid to married women, and changes in the pricing and valuation rules for petroleum revenue tax. These measures are reflected in the baseline for costing the effect of tax changes in the Budget.

The remainder of this annex provides a commentary on the Budget proposals in the table. The paragraph numbers refer to the lines in this table.

Income tax
1 The basic rate will be reduced from 29 per cent to 27 per cent. The cost figures in the table for this item assume that the changes in items 2—7 have been made first. They include the saving in public expenditure on mortgage interest relief to those below the tax threshold. The effect of the consequential change in the rate of advance corporation tax (ACT) is shown in line 29 of the table.

2 The single person's allowance and the wife's maximum earned income relief will be increased from £2,335 to £2,425 and the married allowance from £3,655 to £3,795.

3 The additional personal allowance and widow's bereavement allowance will be increased from £1,320 to £1,370.

4 The age allowance will be increased for the single person from £2,850 to £2,960 and for the married from £4,505 to £4,675; the age allowance income limit will be increased from £9,400 to £9,800.

5 There will be a new, higher leavel of age allowance for those aged 80 or over. The allowance will be £3,070 for the single person and £4,845 for the married.

6 The blind person's allowance will be increased from £360 to £540. This will cost about £2million per year.

7 The basic rate limit will be increased to £17,900.

8 The threshold for the 45 per cent higher rate will be raised by £200 to £20,400. The thresholds for the 50 per cent, 55 per cent and 60 per cent rates will remain at £25,400, £33,300 and £41,200 respectively.

9 One half of profit-related pay (PRP) paid to a private sector employee under a registered scheme will be relieved from income tax, subject to the lower of two annual limits: where the total PRP exceeds 20 per cent of of total PAYE pay, PRP will be regarded for tax relief purposes as limited to that amount, and the maximum annual amount of PRP which may be taken into account will be £3,000. The cost will depend on take-up. It is likely to build up substantially as tax relief becomes payable on more schemes, and PRP becomes a higher proportion of total pay.

10 For 1988—89, the scale for taxing car benefits in respect of company cars provided for directors, and for employees whose remuneration is at a rate of £8,500 a year or more, will be increased by 10 per cent. No change is proposed for 1988—89 to the scale charges for car fuel benefit, also—from 6 April 1987—used for VAT purposes.

11 Legislation providing for the taxation of supplementary benefit paid to the unemployed and to strikers will be amended to reflect the replacement in 1988 of supplementary benefit by income support.

12 Approved savings-related or discretionary share option schemes will be permitted to enable directors and employees when their company is taken over, to exchange their existing options for options over shares in the acquiring company.

13 The limit on charitable donations qualifying for relief under payroll deduction schemes will be increased to £120 from April 1987.

14 The tax treatment of Lloyd's reinsurance to close will be made consistent with the treatment of provisions for outstanding liabilities made by insurance companies and comparable provisions made by other financial traders. The legislation will first take effect for the Lloyd's 1985 Account which closes at the end of 1987. This is assessable for the year 1985—86, the tax for which does not become payable until 1 January and 1 July 1989. The estimate of receipts depends on the details of the new arrangements, which are still to be established.

15 The Inland Revenue's powers to apportion the income and annual payments of a close company to its participators will be made obligatory (a recent Court case held that they were discretionary).

16 A possible anomaly in the law relating to the taxation of foreign partnerships will be removed to prevent substantial potential revenue loss.

Income tax and capital gains tax
17 Relief under the Business Expansion Scheme for investments made in the first half of the tax year will, in part, be able to be claimed against the income of the previous tax year. The special relief for film production, which requires the company to be producing films throughout the three year qualifying period, will be relaxed so that the requirement can be satisfied by the distribution of films produced in this period.

18 The Revenue will be given a limited discretion in certifying offshore funds as distributing funds.

Income tax and corporation tax
19 A new tax regime for personal pensions will be introduced to replace and extend the present, broadly similar, legislation for retirement annuities. The estimated cost assumes an initial take-up of 200,000 rising to 400,000 by April 1989.

20 The changes proposed for pensions include some tightening up to guard against exploitation of the tax reliefs and some relaxations, in particular to allow members of occupational schemes to pay additional voluntary contributions to pension plans outside their employer's scheme ("freestanding AVCs"). The estimated overall cost of the package assumes an initial take-up of freestanding AVCs of 250,000 and includes a modest yield from the tightening up measures.

21 A change is proposed in the limit applicable to tax exempt life or endowment business carried on by friendly societies. The present limit of £750 gross sum assured will be changed to £100 annual premium.

22 The PAYE and subcontractor deduction schemes will be slightly amended. In particular, from April 1988 there will be an interest charge where PAYE tax, or an amount that should have been paid under deduction by a contractor, has to be formally determined. The yields shown result largely from earlier payments of tax due.

23 Where certain interest is paid between companies which are members of a group or under common control, it will be treated in all cases as being paid and received on the same day. Without this measure there could be widespread avoidance.

24 The exemption limits for trade union provident funds will be increased from £2,400 to £3,000 (for lump sums) and from £500 to £625 (for annuities).

25 Capital allowances for construction costs of properties provided for letting on assured tenancy terms by "approved bodies" were introduced in 1982 for a period of five years ending 31 March 1987. That period will be extended by a further five years ending 31 March 1992.

26 With effect from 6 April 1987, training costs borne by an employer to equip with new work skills a worker who is to leave his present empoyment will normally no longer be treated as taxable on the employee and the circumstances in which such costs will be allowed in computing the employer's taxable profits will be correspondingly widened.

Income tax, corporation tax and capital gains tax
27 Legislation will enable securities quoted on new Recognised Investment exchanges to be treated in the same way as comparable securities quoted on the Stock Exchange.

Income tax, corporation tax, capital gains tax, inheritance tax and stamp duties
28 Changes in the tax rules for unit trust are necessary to cater for the definitional and regulatory changes relating to unit trusts introduced in the Financial Services Act.

Corporation tax
29 As a consequence of the reduction in the basic rate, the rate of advance corporation tax (ACT) for 1987—88 will be 27/73rds of the amount of the distribution. This reduction in ACT will be balanced by an increase in the subsequent liability to mainstream corporation tax.

30 The small companies' rate of corporation tax for the financial year 1987 will be reduced to 27 per cent.

31 All companies, building societies and other bodies chargeable to corporation tax will be liable to pay the tax nine months after the end of each accounting period. For individual companies etc the change will be phased in over a period of up to three years. The yield in 1988—89 represents a bringing forward of payment dates from 1989—90.

32 Under present law capital gains by companies are reduced by one-seventh before being charged to corporation tax at 35 per cent. Gains realised from Budget day will cease to be reduced. Instead they will be taxed in full (with indexation allowance) at normal corporation tax rates. For small companies, the small companies' rate will apply to gains. The yield represents the difference between receipts at the level of capital gains before the change and receipts at the level of capital gains expected as a result of the change.

33 Credit for the payment of ACT will be allowed against liability for tax on gains realised from Budget day. The cost shown against this measure is extremely tentative.

34 Dual resident companies are companies which are simultaneously resident in two countries. It is proposed that, unless they are trading companies, they should no longer enjoy a deduction in both countries for the interest which they pay.

35 The rules for calculating banks' taxable income from making a loan to a non-resident will be changed so that any tax credit for foreign witholding tax paid or deemed to be paid on the interest they receive may be offset only against UK tax due on the turn on that loan. The yield will build up over time to about £60 million by 1990—91.

36 An effect of Section 16 of the Oil Taxation Act 1975 will be mitigated by allowing limited carry back of ACT surrendered to a ring fence subsidiary by its parent (initially restricted by a monetary ceiling of £10 million per company), or, in the case of a company owned by a consortium which is a 50/50 joint venture, by allowing surrender of ACT to the ring fence consortium company. Provision will be made to prevent the carrying back of ACT giving rise to repayment of ACT under certain repealed provisions.

37 ACT in respect of dividends paid on or after Budget day on certain preference shares where the capital raised has not been used for ring fence purposes will no longer be available for set-off against corporation tax on ring fence profits. Without this measure, there could have been widespread avoidance of the ring fence provisions, possibly costing tens of £million.

38 The capital gains provisions for groups of companies will be amended to include building societies.

39 Under Pay and File companies will estimate and pay their corporation tax on the normal due date without the need for the Inland Revenue to make estimated assessments. Interest will run from the normal due date on tax paid late by the company and on tax repaid to the company. Returns will be due twelve months after the accounting period with automatic penalties for delay. This measure will not be implemented before 1992.

40 The legislation affecting controlled foreign companies is to be amended to prevent avoidance of a UK tax charge on dividends. Without this provision, there could be a significant loss of tax.

Corporation tax and capital gains tax

41 The provisions concerned with financial futures dealt in on recognised futures exchanges and with traded options will be amended.

Oil taxation

42 Up to 10 per cent of expenditure incurred in developing certain new oil fields will be allowed against a participator's PRT liability in another field. The cost could build up to £40 million in 1989—90, and to £80 million in 1990—91.

43 Research expenditure will be allowed against a participator's PRT liability in any field if, three years after it is incurred, it has not yet become allowable for any field. No cost therefore arises until 1990—91, when it will amount to about £30 million, and £25 million thereafter (taking account of CT clawback).

44 The scope for redistributing oil allowance amongst participators, in order to correct imbalances, will be extended. The cumulative total of oil allowance will be unchanged.

Capital gains tax

45 The capital gains tax annual exempt amount is to be increased in accordance with the statutory indexation provisions from £6,300 to £6,600 in the case of individuals, and from £3,150 to £3,300 in the case of most trusts

46 The limit for retirement relief will be increased from £100,000 to £125,000

Inheritance tax

47 The estimated full year cost for the proposed rate structure in paragraph 4.13 attributable to transfers in 1987—88 is £220 million, measured against the indexed base.

48 The rate of relief on transfers of holdings of more than 25 per cent and up to 50 per cent in unquoted companies is to be increased from 30 to 50 per cent from Budget day. Minority holdings in Unlisted Securities Market companies will no longer qualify for business relief, but shares in such companies will be treated for all inheritance tax purposes like shares in companies with a full listing. The revenue effect of these changes is likely to be broadly neutral.

49 (a) The charge on transfers made by individuals to interest in possession trusts on or after 17 March 1987 and more than seven years before the death of the transferor will be abolished.

(b) The charge on termination of an interest in possession in settled property in favour of another individual on or after 17 March 1987 and more than seven years before the death of the person beneficially entitled to the interest will be abolished.

(c) An alternative basis will be provided for determing the rate of charge on the termination of an interest in possession in settled property in favour of discretionary trust on or after 17 March 1987,

50 (a) Inheritance tax will not be payable in respect of settled property on the death on or after 17 March 1987 of a person beneficially entitled to an interest in possession in that property if the property becomes subject to the trusts of a qualifying heritage maintenance fund within two years (or if a Court Order is needed, within three years) after the death.

(b) The charge where property formerly subject to an interest in possession leaves a heritage maintenance fund will be altered: if the tax given up when the property entered the maintenance fund was tax on the termination of an interest in possession, the exit charge will be based on the cumulated chargeable transfers of the person whose interest was terminated.

51 (a) The tax satisfied by acceptance of pre-eminent heritage property in lieu of inheritance tax may be calculated, at the option of the offeror, by reference to the value of the property at the date of the offer instead of the value at the date of acceptance.

(b) Where this option is selected, the tax will be regarded as having been paid on the date of the offer and so will not bear interest after that date.

Stamp duties

52 Certain technical changes are proposed to the legislation governing stamp duties and the reserve tax.

VAT

53 The gross margins earned by tour operators on sales of tours within the European Community will be brought within the scope of VAT with effect from 1 April 1988.

54 The law will be changed to strengthen the rules relating to the deduction of input tax by partly exempt traders; and to exempt the underwriting of, and making of arrangements for, capital issues.

55 Businesses with annual turnover below £250,000 will have the option of accounting for VAT on the basis of payments made and received. It is intended that this system should be introduced on 1 October 1987.

56 The registration limit will be increased to £21,300 per annum and £7,250 per quarter.

57 The time allowed to notify for registration will be extended to 30 days, and it will be made easier to deregister.

58 Businesses with annual turnover below £250,000 will have the option of making a single VAT return each year (instead of the present four) with nine advance payments based normally on the VAT paid in the previous year. This system will be introduced in the second half of 1988. Certain recommendations of the Keith Committee which were due to be implemented in 1988 will, as a result, be deferred until 1989. The cost of deferral will be £25 million in 1988—89 and some £50 million to £75 million in 1989—90.

59 The special schemes for retailers are to be improved and changed in a number of ways.

60 The law will be changed to prevent the avoidance of tax on imported services by exempt businesses.

61 VAT relief for charities will be extended to certain welfare vehicles used by hospices to transport the terminally ill; to specialised location and identification equipment used by rescue and first aid services; to goods donated for export by a charity for relief of distress or animal welfare; to installing or adapting bathroom, washroom or lavatory facilities for the handicapped in charity residential homes; and to drugs and chemicals directly used by a charity in medical care or research.

Excise duties

62-69 There will be no changes in the duties on alcoholic drinks, tobacco products and most hydrocarbon oils.

70 The duty on unleaded petrol will be reduced by 5p a gallon (inclusive of consequential VAT).

71 The duty on bets placed on-course at horse and greyhound racetracks will be abolished.

72 The rates of gaming machine licence duty will be increased as follows:

for 5p "amusement with prizes" machines by £30
for 10p "amusement with prizes" machines by £75
for 5p jackpot machines by £75
for 10p jackpot machines by £210

The amount of refund on surrender of a licence will be increased and the arrangements for collecting the duty will be changed.

Vehicle excise duties

73 There will be no change in the duties on cars, light vans, taxis, buses, coaches, motor cycles and most lorries.

74 The concessionary rates of duty for farmers' heavy goods vehicles over 7.5 tonnes will be increased by varying amounts as the final stage in the process of bringing them into line with the proportion of average mileage covered by these vehicles on public roads. From 1 January 1988 the rate of duty for trade licences will be increased to £85 for cars and £17 for motor cycles, as the second stage in the process of increasing these rates to the rates for ordinary licences for cars and motor cycles between 150cc and 250cc respectively.

75 From 1 January 1988 a new taxation class will be created for recovery vehicles. The rate of duty will be set at £50.

76 The law will be amended so that, on conviction for VED evasion, the courts will be required to order payment of all back duty due from that offender from the expirty of the last licence or date of acquisition of the vehicle, without regard for any non-use of the vehicle during the period. The maximum penalty for failure to return a licence, issued against a cheque that is subsequently dishonoured, will be increased.

Other

77 There will be no change in bus fuel grant.