HM Government

Budget 2013: policy costings

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1 Introduction

1.1 This document sets out the assumptions and methodologies underlying costings for tax and Annually Managed Expenditure (AME) policy decisions announced since Autumn Statement 2012, where those policies have a greater than negligible impact on the public finances. This continues the practice established at June Budget 2010 and the principles outlined in '*Tax policy making: a new approach*', published alongside June Budget 2010[1]. This publication is part of the Government's wider commitment to increased transparency.

1.2 Chapter 2 presents detailed information on the key data and assumptions underpinning the costing of policies in Budget 2013. Each note sets out a description of the measure, the base, the methodology for the costing (including relevant adjustments for behavioural responses) and highlights any areas of additional uncertainty, beyond those inherent in the OBR's forecast. All costings are presented on a National Accounts basis.

1.3 Costings for AME measures do not have a direct effect on borrowing after 2014-15 as they are contained within the overall spending envelope for Total Managed Expenditure (TME).

1.4 Annex A sets out the indexation assumptions included in the public finances forecast baseline, including all pre-announcements. Annex B, by the OBR, sets out the approach the OBR has taken to scrutiny and certification of the costings, and highlights areas of particular uncertainty.

[1] The Government's approach to policy costings is set out in Chapter 1 of '*Budget 2011 policy costings*'. This explains in detail what policy costings are, which measures they cover and their role in the public finance forecast. It gives further information on the methodology for producing costings, including estimating the static, behavioural and wider economy impacts

2 Policy costings

The following policy decisions are included in this chapter:

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Personal allowance increase

Measure description

This measure increases the income tax personal allowance (PA) to £10,000 in 2014-15.

The basic rate limit (BRL) will also be decreased to £31,865 to ensure that the higher rate threshold (HRT) increases by no more than 1 per cent to £41,865 in 2014-15 as announced at Autumn Statement 2012. The National Insurance contributions (NICs) upper earnings and profits limits (UEL/UPL) will remain aligned to the HRT.

The tax base

The tax base is estimated using two data sources:

- for income tax; data on taxable incomes is taken from the Survey of Personal Incomes (SPI), comprising a sample of around 679,000 tax records, weighted to be representative of all taxpayers. The latest available data is for the tax year 2010-11; and
- for National Insurance; data on incomes subject to NICs are estimated using the Annual Survey of Hours and Earnings (ASHE), calibrated to NICs receipts outturns.

The income tax base, including taxpayer numbers and incomes, is grown over the forecast period in line with the relevant OBR forecast determinants. The NICs base is also grown in line with relevant OBR forecast determinants.

Costing

The Exchequer impact is calculated by applying the pre- and post-measure tax regimes to the tax base described above. The costing also takes account of the direct impact of this measure on DWP spending on income-related benefits.

Behavioural adjustments for small changes in the HRT in years after 2013-14 and for those in the personal allowance taper region have been considered, but are judged to have a negligible impact on this costing. The effect of this measure on tax incentives to incorporate has also been considered but judged to be negligible.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-1,075	-1,045	-1,060	-1,210

Areas of uncertainty

The main uncertainties in this costing relate to the projection of SPI survey data from 2010-11, which in particular affects the number of baseline taxpayers who will benefit from the measure.

National Insurance Contributions: employment allowance

Measure description

This measure introduces an annual Employment Allowance of £2,000 for Class 1 Secondary "employer" National Insurance Contributions (NICs) from April 2014. This will give all businesses and charities an allowance which can be offset against their employer NICs bill.

The tax base

The tax base is employer NICs payable by each employer at the enterprise level. Current employer NICs liabilities are estimated using Pay-As-You-Earn (PAYE) administrative data. This base is grown in line with relevant elements of the OBR's economic forecast to reflect wage growth. An adjustment is also made to allow for projected growth in the number of businesses. The base number of eligible employers is estimated at around 1.25 million, who can each benefit by up to £2,000 a year.

Costing

The static costing is calculated by applying a reduction of up to £2,000 per employer to the projected employer NICs liabilities described above. Adjustments are made to take account of behavioural effects and the expected take-up of the allowance. The allowance will be incorporated into PAYE Real Time Information payroll software. Take-up is expected to be high, rising to 90 per cent by 2017-18.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-1,255	-1,370	-1,595	-1,725

Areas of uncertainty

The main uncertainties relate to the size of the tax base, the behavioural effects and take-up assumptions included.

Inheritance tax nil rate band

Measure description

This measure extends the freeze of the inheritance tax (IHT) nil-rate band of £325,000 from 2015-16 until 2017-18, as announced alongside the new social care cap in February 2013.

The tax base

The tax base is estimated from a sample of 2010-11 IHT returns, which contain details of the value of estates left on death, as well as any reliefs that they are entitled to. The tax base is projected forward using OBR forecast determinants and the Government Actuary Department's mortality forecasts.

Costing

The Exchequer impact is calculated by applying the pre- and post-measure tax regimes to the tax base described above. A small behavioural impact has been included in the costing to take into account tax planning. This results in the following costing:

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	0	+20	+80	+170

Fuel duty

Measure description

This measure cancels the September 2013 RPI increase in fuel duty.

The tax base

The tax base for this policy is every litre of taxable fuel that is imported for use or produced in the UK and delivered for home use from relevant premises. In 2011-12 this amounted to just over 50 billion litres of fuel. Estimates of the tax base over the costing period come directly from the fuel duty forecast.

Static costing

The static costing is calculated by multiplying the tax base by the change in rates.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-490	-860	-880	-925	-955

Post-behavioural costing

Behavioural responses were included to take into account the increase in consumption in response to lower fuel price increases. The behavioural impact is assumed to increase over time as people have time to adjust. For a 1 per cent reduction in pump prices, the model assumes a short-term 0.07 per cent increase in the quantity of fuel consumed, which increases to 0.13 as consumers react to the price change. These elasticities reflect only the impact upon kilometres driven, as changes in vehicle efficiency are largely driven by EU emissions standards. This increases Exchequer yield, partially offsetting the reduction in static yield.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-480	-810	-835	-870	-900

Areas of uncertainty

The main uncertainty in this costing arises from the extent and the speed of the behavioural response.

Beer duty

Measure description

This measure cancels the alcohol duty escalator of RPI+2 per cent for beer. The rate of beer duty will be reduced by 2 per cent from 25 March 2013, and will be increased by RPI in 2014-15.

Low Strength beer will be reduced by 6 per cent from 25 March 2013 and will then increase by RPI in 2014-15. High Strength beer will be reduced by 0.75 per cent from 25 March 2013 and will then increase by RPI in 2014-15.

The tax base

The tax base for this measure is total receipts from all alcohol released for sale in the UK (clearances). This is estimated at £10.2 billion in 2012-13, of which beer accounts for £3.4 billion. It is estimated that 98 per cent of beer duty receipts come from general beer duty with the remaining 2 per cent coming from high and low strength beer. Forecast annual clearances are estimated from OBR's alcohol duty receipts forecast.

Static costing

The static Exchequer impact was calculated by applying the pre- and post-measure duty rates to the tax base data described above.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-235	-295	-300	-300	-300

Post-behavioural costing

A behavioural adjustment is included to take into account changes in consumption of beer in response to a price reduction and changes in consumption of other types of alcohol. The behavioural response incorporated in the Exchequer impact reported above is driven mainly by the estimated own price elasticities which for beer are -0.44 on trade and -1.07 off trade.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-170	-215	-210	-205	-205

Areas of uncertainty

The main uncertainty in this costing relates to the extent of the behavioural adjustment. The elasticities used are new estimates extending and improving the methodology in HMRC's previous published research.

Main rate of corporation tax reduction

Measure description

This measure reduces the main rate of corporation tax (CT) by a further 1 per cent from April 2015. As a result of the measures announced by the Government, the main rate of CT will be reduced to 23 per cent in 2013-14, 21 per cent in 2014-15 and then to 20 per cent from 2015-16 onwards.

The tax base

Estimates of the tax base for the main rate of CT are taken directly from the CT revenue forecast of quarterly instalment payments by non-life assurance companies. The baseline for the forecast is an estimate of 2012-13 accruals based on the latest tax receipts. This is then projected in line with relevant determinants from the OBR's economic forecast.

The resulting estimate of net taxable profits taxed at the main rate (and the main rate reduced by marginal relief) in 2012-13 is around £80 billion.

Static costing

The static Exchequer impact is calculated by applying the pre-and post-measure tax regimes to the tax base described above.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-10	-485	-930	-1,020

Post-behavioural costing

The costing includes a behavioural response to account for changes in the incentives for multinational companies to shift profits and activity in and out of the UK. A reduction in the CT rate makes the UK more attractive, relative to other locations, as a destination to locate profits.

The proportion of profits in the tax base that are mobile has been estimated at around 40 per cent, based on data from CT returns. Within this data, the sectors where profits are known to be most mobile are examined and the profit flows for these sectors that are most likely to be shifted are identified. An elasticity of -2 has been applied to these mobile profits; a further 1 percentage point decrease in the corporation tax rate each year results in a 2 per cent increase in the size of the mobile profit base. The elasticity used is a central estimate, informed by multiple academic studies.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-5	-400	-785	-865

Areas of uncertainty

The main uncertainties in this costing surround the CT revenue forecast on which it is based and the behavioural effects included.

Enterprise management incentives: qualification for capital gains tax Entrepreneurs' Relief

Measure description

Budget 2012 announced the extension of capital gains tax Entrepreneurs' Relief to shares acquired through the exercise of qualifying enterprise management incentives (EMI) share options. This measure extends Entrepreneurs' Relief to EMI shares by introducing changes to Entrepreneurs' Relief's minimum shareholding and holding period requirements. This measure applies to eligible EMI shares acquired on or after 6 April 2012 that are disposed of on or after 6 April 2013.

The tax base

The tax base is the gains made by employees selling shares after they have exercised their qualifying EMI share options and is estimated using a number of sources:

- data for 2010-11 on the value of gains made when options are exercised, which are projected forward using the OBR's forecast for equity prices;
- published capital gains tax (CGT) data to estimate the timing of disposals; and
- the OBR forecast for equity prices to estimate the gains made between exercising the option and selling the underlying shares.

Static costing

The static costing is the difference between:

- the tax liability prior to the measure: The 28 per cent CGT rate is applied to three quarters of the gains from EMI shares with a CGT liability held for over a year (one quarter is assumed to be already eligible for Entrepreneurs' Relief) and to all gains from EMI shares with a CGT liability held for less than a year; and
- the tax liability after the introduction of the measure: the 10 per cent Entrepreneurs' Relief rate is applied to all gains from eligible EMI shares with a CGT liability apart from those where the combined option and shareholding period is less than a year (where the 28 per cent CGT rate is still applied).

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-15	-20	-20	-20

Post-behavioural costing

This measure makes receiving EMI options more attractive for individuals who would otherwise face a higher CGT charge on the disposal of shares acquired through EMI options. This costing therefore assumes there will be an increase in share options granted to CGT taxpayers. An adjustment is also made to take account of potential deferrals of share disposals.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-10	-15	-20	-25	-25

Stamp duty: abolish schedule 19 charge

Measure description

This measure abolishes stamp duty on shares currently subject to a charge under Schedule 19 from April 2014. Schedule 19 currently imposes a 0.5 per cent stamp duty reserve tax (SDRT) charge on fund managers where surrendered units are re-issued to new investors within a two-week period. The measure removes this charge for all asset management funds.

The tax base

The tax base is the value of transactions currently subject to a charge under schedule 19 and is estimated from HMRC administrative data. The tax base is grown in line with the OBR's forecast for stamp duty on shares. The tax base in 2012-13 is £26 billion.

Costing

The Exchequer impact is calculated by applying the tax rate of 0.5 per cent to the tax base described above. A small adjustment has been made for investors who switch from traditional investment strategies towards collective investment schemes. This measure is expected to help shore up the UK's tax base from international competition; however this is not included in the OBR's forecast.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-145	-145	-150	-160

Areas of uncertainty

The main uncertainty in this costing relates to the OBR's stamp duty forecast.

Abolishing stamp duty on AIM and other junior shares

Measure description

This measure abolishes stamp duty and Stamp Duty Reserve Tax for share transactions in UK companies quoted on growth markets. The measure takes effect from April 2014.

The tax base

The tax base used for the costing is the tax currently collected from share transactions in UK companies listed on growth markets: the Alternative Investment Market (AIM) and the Integrated Services Digital eXchange (ISDX) Growth Market. This is estimated from information on the value of trades from the London Stock Exchange and the ISDX exchange. An assumption has been made that the proportion of stampable transactions is 75 per cent on UK shares listed on growth markets.

Costing

The Exchequer impact is calculated from the growing the tax base above in line with the OBR's stamp duty forecast. A small adjustment has been made in the costing to account for a rise in share prices after the measure is announced but before it is implemented. This is calculated using share price elasticity of -0.23. The elasticity used is designed to calculate the responsiveness of share price to changes in the tax rate.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	+5	-170	-170	-170	-175

Areas of uncertainty

The main area of uncertainty in this costing relates to the tax base.

Seed enterprise investment scheme: capital gains tax holiday

Measure description

Autumn Statement 2011 announced a one year exemption for capital gains tax (CGT) chargeable on gains realised in 2012-13 where the gains are invested through the Seed Enterprise Investment Scheme (SEIS) in the same or the following tax year. This measure extends the exemption to CGT chargeable on gains realised in 2013-14 at a reduced rate of 50 per cent.

The tax base

The measure applies to investments made in companies qualifying under SEIS. This is estimated by assuming that all investments undertaken through the Enterprise Investment Scheme in qualifying companies below the £150,000 investment limit for SEIS would opt to take advantage of the higher relief rate. Around 30 per cent of this investment is forecast to be reinvested gains.

Static costing

The static costing relates only to CGT relief. It is calculated by multiplying the tax base by the average CGT rate assumed for SEIS investors.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	neg.	neg.	0	0

Post-behavioural costing

A behavioural adjustment is made to account for the additional gains expected to be invested in SEIS due to the 50 per cent relief. About half of the additional investments are forecast to be gains brought forward from later years. The other half represents gains on which CGT would have otherwise been chargeable in 2013-14. In addition income tax relief is available on all the additional gains invested in SEIS.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-5	neg.	0	0

Employee shareholder status

Measure description

This measure removes income tax and National Insurance Contributions (NICs) from the first £2,000 of share value acquired by an employee through the adoption of the 'employee shareholder' employment status, from 1 September 2013. It also moves the start date of the capital gains tax (CGT) exemption announced at Autumn Statement 2012 from April 2013 to September 2013.

The tax base

The tax base is the combined value of the first £2,000 worth of shares held by employees who take up this new status as a result of the measure being implemented. It is estimated by looking at 2010-11 CGT returns and statistics on the numbers of employees currently receiving shares and share options in unapproved schemes. Assumptions are made on the value of employee shares that are transferred into shareholdings under the new status, and when considering the CGT relief, gains are estimated after assuming some restrictions on the timing of disposals of the shares.

Static costing

The Exchequer impact is estimated by multiplying the tax base described above by an estimate of average marginal NICs and income tax rates of beneficiaries of existing discretionary share schemes.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-15	-35	-55	-65

Post-behavioural costing

A behavioural adjustment is made to allow for an increase in uptake of the new status as a result of the availability of the additional relief. An adjustment is made for the change to the start date of the CGT exemption.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-15	-45	-60	-45

Areas of uncertainty

The main uncertainty in this costing relates to the behavioural adjustment.

Research and Development Tax Credits: above the line

Measure description

Budget 2012 announced the introduction of an "above the line" credit for large company research and development (R&D), with a minimum rate of 9.1 per cent before tax. This measure increases the rate of the credit to 10 per cent, gives a special rate for ring-fenced companies to maintain their current level of relief and includes a revision to ensure a common start date for all companies using the scheme.

The tax base

Details from claims for research and development expenditure are captured on CT600 returns. The rate of the credit is applied to qualifying expenditure in order to calculate the cost of the credit. Future research and development expenditure is assumed to grow in line with the relevant OBR determinants. An assumption is made on the number of companies continuing to claim relief via a super-deduction between April 2013 and April 2016.

Static costing

The static Exchequer impact is calculated by applying the pre and post measure tax regimes to the tax base described above.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-15	-75	-80	-80	-85

Post-behavioural costing

It is expected that additional research and development investment will be undertaken as a result of the increase in the rate of the credit. A recent evaluation of R&D tax credits concluded that for every £1 of additional relief, R&D expenditure increases by £1.[1] This increases the cost of tax relief by up to £10 million a year.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-20	-80	-85	-90	-95

Areas of uncertainty

In addition to the uncertainties around the OBR's economic forecast, there is some uncertainty relating to the tax base as not all claims for R&D relief are captured by CT600 returns.

[1] http://www.hmrc.gov.uk/research/report107.pdf

Pensions lifetime allowance: individual protection

Measure description

At Autumn Statement 2012, the government announced a reduction in the pensions tax relief lifetime allowance (LTA) from £1.5 million to £1.25 million from 2014-15 onwards. This measure introduces an individual protection regime which entitles an individual to an LTA equal to the value of their pension's rights in April 2014, up to a maximum of £1.5 million (or the standard LTA if greater).

The tax base

The eligible population for this measure are those with pension assets between £1.25million and £1.5million in April 2014. Data is from the ONS, the OECD and the Government Actuary's Department.

Static costing

The static costing is calculated by estimating the reduction in the LTA charges for the eligible population described above that are not expected to take fixed protection.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	0	0	-10	-20

Post-behavioural costing

The original LTA costing at Autumn Statement 2012 included an adjustment for some public sector workers who choose to opt out of their pension schemes to take fixed protection and thus protect their existing pension wealth. This opting out lowers the value of pension contributions the government receives. This measure means some of these public sector workers would now be better off remaining in their schemes and taking individual protection, resulting in a gain to the Exchequer. An allowance is made for those who do not reverse their decision to opt out.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+100	+80	+50	0

Areas of uncertainty

The main uncertainty relates to the number of individuals who will use this protection.

Disincorporation relief

Measure description

This measure removes some of the tax charges that arise when assets are transferred by a company to its shareholders, who wish to continue the business in an unincorporated form. The measure removes the corporation tax charge on transfers of qualifying assets (goodwill and land used in the business) by allowing those assets to transfer at a reduced value. The measure applies to businesses with total qualifying assets not exceeding £100,000, and will affect disincorporations from 1 April 2013 to 31 March 2018.

The tax base

The tax base is the value of assets held by companies who currently disincorporate.

The number and total assets of companies who have no or little tax incentive to stay incorporated is derived from a model on tax motivated incorporations, 2009-10 corporation tax returns and financial data from FAME on tangible and intangible assets. Adjustments are then made to take into account:

- the proportion of businesses who would like to disincorporate, using a survey of small incorporated businesses, published by the Office of Tax Simplification[2]; and
- those businesses that would have disincorporated without the measure, using information from tax returns.

Costing

The costing is composed of

- a cost to the Exchequer of £15 million per annum from those companies who would have disincorporated anyway and who currently pay tax on the disposal of assets; and
- a gain to the exchequer of £5 million – £10 million per annum due to the increased income tax and national insurance receipts offset by reduced corporation tax receipts from those companies that otherwise would not have disincorporated.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-10	-5	-5	-5	-5

Areas of uncertainty

The main areas of uncertainty around this costing are the estimates of the market value of goodwill and estimates on the proportion of companies who would like to disincorporate with and without the measure.

[2] http://www.hm-treasury.gov.uk/d/ots_small_business_tax_review_disincorporation_280212.pdf

Office for Tax Simplification: share schemes

Measure description

This measure is a package of simplifications to the rules governing the four tax advantaged employee share schemes – Share Incentive Plans (SIP), Save As You Earn Option Schemes (SAYE), Company Share Option Plans (CSOP) and Enterprise Management Incentives (EMI), giving effect to changes recommended by the Office for Tax Simplification (OTS).

The tax base

Most of the changes arising from this measure have modest Exchequer impacts. The exception is the change to the tax rules around cash takeovers, which allows employees to enjoy tax advantages offered on their shares due to company cash takeovers in which they may be required to exercise share options early, or be paid out in cash for their SIP shares. The tax base for this is estimated from information on tax returns on SIP schemes, and projected forward using the OBR's forecast for equity prices.

Costing

The Exchequer impact is the tax base multiplied by the estimated average rates of IT and NIC reliefs applicable to employee share schemes. Added to the modest costs of the other elements of the simplification rules, this results in the following costing, which is estimated on a National Accounts basis.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-40	-45	-50	-55	-55

Areas of uncertainty

The main area of uncertainty in this costing is around the estimates of the tax base for the changes of the rules for cash takeovers.

National Insurance Contributions: contracting out

Measure description

The single-tier State Pension system will begin in 2016-17. A necessary consequence of this reform is the closure of the State Second Pension. As a result, from 2016-17, the ability for members of a Defined Benefit (DB) pension scheme to 'contract out' of the Second State Pension will end. They and their employers will therefore no longer be able to pay a lower NICs rate.

The contracted out National Insurance rebate for defined benefit pension schemes will be removed from April 2016. In 2012-13 the rebate is 1.4 per cent for employees and 3.4 per cent for employers on earnings between the Lower Earnings Limit (£107 per week) and Upper Accrual Point (£770 per week).

The cost base

The tax base is estimated using the HMRC/GAD (Government Actuary's Department) National Insurance contributions (NICs) forecasting and costing model. Class 1 NICs accruals are estimated using earnings and employment information from the Annual Survey of Hours and Earnings (ASHE), projected in line with relevant elements of the OBR's economic forecasts.

Class 1 rebates are estimated separately based on assumptions for the proportion of individuals contracting out of the State Second Pension. These are provided by the GAD and adjusted to reflect the OBR's economic forecasts.

Costing

The costing is calculated by removing the contracted out rebate from the tax base described above. This results in static costings of +£0.2 billion for private sector employee NICs; +£1.4 billion for public sector employee NICs; +£0.6 billion for private sector employer NICs; and +£3.3 billion for public sector employer NICs.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	0	0	+5,495	+5,435

Areas of uncertainty

In addition to the uncertainties around the OBR's economic forecast, the main uncertainties in the costing relate to the assumed start level of the single tier pension, future levels of defined benefit pension scheme membership and expected changes in the composition of employment between the public and private sectors.

Pension Credit uprating

Measure description

The measure increases the Standard Minimum Guarantee (SMG) in Pension Credit (PC) in April 2013 by 1.9 per cent, meaning a £2.70 increase for single pensioners on Guarantee Credit (GC) only. This ensures that the cash increase in the state pension is 'passed-though' to PC claimants.

The measure also increases the Savings Credit Threshold by 3.1 per cent and decreases the maximum Savings Credit (SC).

The cost base

The cost base is estimated using Department for Work and Pensions (DWP) forecasts of PC and housing benefit expenditure and Office for National Statistics (ONS) estimates of average weekly earnings. The cost base is grown in line with the relevant OBR forecast determinants.

Costing

The costing is calculated by applying the pre- and post-measure PC and SC rates to the cost base described above.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	+5	+5	+5	+5	neg.

Areas of uncertainty

Possible changes in PC take-up have not been modelled and are considered negligible. No behavioural adjustment has been made due to the relatively small magnitude of the benefit changes resulting from the measure.

Sickness absence review: Percentage Threshold Scheme

Measure description

Employers have a responsibility to pay statutory sick pay (SSP) to qualifying employees for up to 28 weeks. If they have costs more than a set percentage (currently 13 per cent) of their NICs liability in any month then the excess above this can be reclaimed by them via the PTS. In response to the Sickness Absence Review published in November 2011, this measure removes the Percentage Threshold Scheme (PTS) in 2014-15 and recycles savings to fund a more proactive absence management system: the new health and work assessment and advisory service. This service will consider the occupational health of employees after four weeks of sickness absence and provide advice to employers, employees and GPs on how they can return to work.

The cost base

The cost base is those employers with high sickness absence. Current expenditure on SSP is estimated using data from the Government Actuary's Department (GAD) and HMRC and adjusted to reflect growth in employment and benefit uprating assumptions.

Costing

The costing is equivalent to the current estimated cost of the percentage threshold scheme, which falls under AME expenditure, estimated using the cost base described above. The costs of the health and work assessment and advisory service are funded by DEL expenditure and are not accounted for here.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+50	+50	+55	+55

Areas of uncertainty

The main uncertainties with the costing relate to the ONS's population projections and the estimate of extra claims based on extrapolation of historical data.

Tax relief: employer expenditure on health-related interventions

Measure description

This measure introduces a tax and National Insurance contributions relief for expenditure by employers on private health-related interventions recommended by the new health and work assessment and advisory service. Without the relief this expenditure would be a taxable benefit in kind.

The tax base

The number and value of health interventions by employers once this measure is introduced are derived from projections from the Department for Work and Pensions. This results in an estimated 110,000 interventions with a total cost of £23 million each year from 2014-15.

Costing

The Exchequer impact is calculated as the change in income tax and NICs liabilities when the interventions funded by employers are relieved.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-10	-10	-10	-10

Areas of uncertainty

The main uncertainties in this costing relate to the estimate of the total cost of health-related interventions.

Equitable Life payments

Measure description

This measure makes an ex-gratia lump sum payment of £5,000 to people who bought Equitable Life With-profits Annuities before 1 September 1992 and are therefore not eligible for the Equitable Life Payment Scheme. Payments will be made to those within this group who are living and aged 60 or over at the time of the Budget 2013 announcement, with a further £5,000 available to those who are in receipt of Pension Credit (PC).

The cost base

The cost base is the group of Equitable Life With-Profits Annuitants as set out above. The numbers in this group are taken from estimates made by Equitable Life and others and from assumptions about the proportion of annuitants still alive at the time of the announcement.

Costing

The costing is estimated by multiplying the £5,000 payment by the cost base described above. A further £5,000 is applied to those in receipt of PC, using assumptions about the proportion of the group in receipt of PC. The costing also provides an allowance for administration costs.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+45	0	0	0

Areas of uncertainty

The uncertainties in this costing relate to assumptions around the number of annuitants, the proportion still living at the time of the announcement and the proportion in receipt of PC.

Right to Buy

Measure description

The Government is making changes to the Right to Buy regime to increase take up. These changes include:

- reducing the eligibility period before tenants become eligible for Right to Buy from five to three years; and
- increasing the maximum Right to Buy discount in London from £75,000 to £100,000.

The cost base

The debt attributed to a unit of Housing Revenue Account housing has been derived from the HRA reform self-financing calculations.

Costing

The Department for Communities and Local Government have estimated the impact of increasing RTB discounts on take up using a module of the Department's Affordability Model, developed at the University of Reading.

Local Authorities keep the proportion of the receipt needed to cover the debt associated with any property sold so that they can pay down the debt associated with that property and ensure that their HRA business remains viable.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-5	+45	+40	+50	+50

Areas of uncertainty

There is uncertainty in this costing around take-up assumptions. Increased discounts should raise RTB sales; however take-up will be influenced by a number of factors including wider economic circumstances. There is also uncertainty about the behaviour of Local Authorities, given they will not be obliged to pay down debt.

Vehicle Excise Duty disability exemption

Measure description

Disabled drivers claiming the enhanced mobility component of the Disability Living Allowance (DLA) welfare benefit are currently exempt from Vehicle Excise Duty (VED). The Welfare Reform Act 2012 introduced a new disability benefit, the Personal Independence Payment (PIP), to replace DLA for those of working age (16 to 64).

This measure provides a VED exemption to disabled drivers claiming PIP as follows:

- a 100 per cent VED discount to those receiving enhanced level mobility PIP; and,
- a 50 per cent VED discount to those receiving standard level mobility PIP.

The introduction of the PIP will take effect from 8 April 2013 at which point the VED exemption will also come into effect.

The tax base

The tax base for this measure is the difference between the numbers of people utilising the VED exemption under the PIP compared to the DLA. This is estimated using the Department for Work and Pensions (DWP) data and is adjusted to take account of a transition phase as individuals switch from DLA to PIP.

Costing

The Exchequer impact is made up of:

- the tax base for the enhanced level mobility benefit multiplied by the average VED rate; and
- the tax base for the standard level mobility element of PIP multiplied by half of the average VED rate.

DWP administer PIP and have introduced strict criteria around which individuals are eligible to receive PIP (including whether it is standard or enhanced mobility level). As a result we do not expect there to be a significant behavioural effect.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-10	-10	-10	-5	0

Areas of uncertainty

The main uncertainty in this costing is the assumption that the average VED rate reflects the types of cars driven by the affected population.

Universal Credit: exempt from income tax

Measure description

This measure exempts Universal Credit (UC) from income tax. UC will replace various benefits, most of which are currently not taxed. The exceptions are Income Support (IS) paid during strikes and income-based Jobseeker's Allowance (JSA (IB)).

The tax base

The tax base for JSA is taken from the 2010-11 Survey of Personal Incomes (SPI); a large representative sample of tax records of individuals in contact with HMRC for income tax purposes. The survey also includes information on individuals who are paid JSA. The tax base is projected forward using OBR determinants and the Department for Work and Pensions (DWP) caseload and expenditure forecasts for the JSA.

The value of IS paid during strikes is negligible.

Costing

The Exchequer impact is calculated by multiplying the tax base by the basic tax rate. The proportion of tax that is due to JSA (IB) is assumed to be the same as the share of JSA (IB) in total JSA. The costing accounts for the profile of migration to UC.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	0	-35	-35	-30

Areas of uncertainty

The main uncertainties in this costing relate to the proportion of tax due on JSA (IB) in relation to total JSA and the JSA records in the SPI.

Annual Tax on Enveloped Dwellings and Stamp Duty Land Tax higher rate: reliefs for commercial business

Measure description

At Budget 2012, the Government introduced a higher rate of Stamp Duty Land Tax (SDLT) for residential property purchased for a consideration greater than £2 million by certain companies, partnerships with company members and collective investment schemes. An Annual Tax on Enveloped Dwellings for residential properties held by the bodies described above was also introduced.

This measure introduces reliefs from both the higher rate of SDLT and the Annual Tax on Enveloped Dwellings for genuine businesses.

The tax base

The tax base is estimated from SDLT administrative data, held by HMRC, and grown in line with HMRC administrative data and the relevant elements of the OBR's economic forecast.

Static costing

The static costing is calculated by applying the difference between the pre and post measures tax regimes to the tax base described above.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-60	-60	-60	-60	-65

Post-behavioural costing

The costing takes into account a range of behavioural effects, including changes to the price and transaction levels of affected properties.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-30	-40	-40	-40	-45

Areas of uncertainty

There are uncertainties in the stock and value of relevant properties, the volume of transactions affected by the measures, and the behavioural responses to these measures.

Heavy goods vehicle road user levy

Measure description

This measure introduces a road user levy for all heavy goods vehicles (HGVs) over 12 tonnes using UK roads, including foreign hauliers. To ensure that UK hauliers are no worse off, vehicle excise duty (VED) is reduced for HGVs over 12 tonnes. The measure also removes reduced pollution certificate (RPCs) and the 10 per cent surcharge on six monthly VED payments for HGVs over 12 tonnes.

The tax base

The tax base for the road user levy comprises estimates of all HGVs over 12 tonnes which are declared eligible for road use, including foreign hauliers. This is estimated using data from the Driver and Vehicle Licensing Agency (DVLA) and the Department for Transport (DFT) survey of Foreign Road Goods Vehicles.

The tax base for the VED adjustment is estimated using data on the stock of vehicles from the Department for Transport (DfT) and the Driver and Vehicle Licensing Agency (DVLA). In line with the VED revenue forecast model and DfT assumptions, estimated net annual increases in the number of vehicles are used to forecast future stock levels.

Costing

The costing is calculated by applying the pre- and post-measure tax regimes to the tax base described above. A behavioural adjustment is included to account for foreign operators re-organising their business to minimise costs.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+25	+25	+25	+25

Freeze vehicle excise duty for heavy goods vehicles

Measure description

This measure freezes vehicle excise duty (VED) rates on heavy goods vehicles (HGVs) and other selected vehicles, such as buses, in 2013-14. These rates were forecast to increase by RPI.

The tax base

The tax base comprises estimates of all HGVs, buses and other selected vehicles which are declared eligible for road use in the year 2013-14. This is around 600,000 vehicles in 2013-14 according to data on the stock of vehicles from the Department for Transport (DfT) and the Driver and Vehicle Licensing Agency (DVLA). In line with the VED revenue forecast model and DfT assumptions, estimated net annual increases in the number of vehicles are used to forecast future stock levels.

Costing

The costing is calculated by applying the pre- and post-measure tax regimes to the tax base described above.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-10	-10	-10	-10	-10

Carbon Price Floor: Northern Ireland Exemption

Measure description

This measure grants electricity generators in Northern Ireland a 100 per cent exemption from Carbon Price Floor from 1 April 2013.

The tax base

The tax base for this measure is made up of the fossil fuels used to generate electricity in Northern Ireland. Data and forecasts for total UK fossil fuel use by power producers is provided by the Department for Energy and Climate Change (DECC). The tax base has been estimated by scaling the totals in line with historical fuel use in Northern Ireland compared to the rest of the UK.

Costing

The Exchequer impact is calculated by applying the pre and post-measures tax regimes to the tax base described above. Behavioural effects are assumed to be negligible.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	-20	-25	-40	-45	-45

Areas of uncertainty

The main uncertainties relate to future energy prices and their effect on the demand for electricity, and the potential for a small behavioural response.

Low emissions vehicles

Measure description

This measure extends the 100 per cent first-year allowance for non-leased low CO_2 emissions cars for an extra three years and reduces the threshold from 95g per km to 75g per km. This measure also makes changes to how company car tax (CCT) is calculated by introducing two new CCT bands with reduced rates (appropriate percentages of the list price) for ultra low emission vehicles (ULEVs). ULEV rates are set out to 2016-17 with a commitment that there will be a three percentage point differential between the 0-50 and 51-75 g/km CO_2 bands and between the 51 – 75 and 76 – 94 g/km CO_2 bands in 2017-2018; and a two percentage point differential between the 0-50 and 51-75 g/km CO_2 bands and between the 51-75 and 76-94 g/km CO_2 bands in 2018-19 and 2019-20.

This measure takes effect from April 2015.

The tax base

The tax base for the extension of the allowance for an extra three years is the level of expenditure by businesses that qualifies for 100 per cent allowances. This is estimated using information from the Department for Transport on sales of new low CO_2 cars and their list prices. This results in a tax base of around £125 million in 2015-16 rising to around £260 million in 2017-18.

For the introduction of two new CCT bands with reduced rates for ULEVs, the tax base is estimated using projections of ULEVs from the Department for Transport. Car benefit take-up is assumed to remain constant as a proportion of the OBR's forecast for employees.

Costing

The costing is calculated by applying the pre- and post-measure regimes to the tax bases described above, taking into account the distribution of tax rates over different emissions levels of company cars.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	0	-15	-40	-50

Areas of uncertainty

The main uncertainties in the costing arise from the estimates of the tax base and future changes in the provision of company cars by employers including the rate of growth of the take up of ULEVs.

Further environment measures

Measure description

Budget 2013 announces the following four environmental measures:

- enhanced capital allowances (ECA): an update to the list of technologies and products covered by the energy-saving and water efficient ECA scheme;
- capital allowances for energy saving plants and machinery in Northern Ireland: amendments to ensure that expenditure in Northern Ireland is treated in the same way as the rest of the United Kingdom;
- aggregates levy: a freeze to the rate of aggregates levy in 2013-14 at £2.00, compared to a previously announced increase to £2.10; and
- Carbon Price Floor: a number of technical changes to the legislation.

The tax base

For ECAs, the tax base is the change in qualifying sales resulting from an updated list of technologies and products. This was estimated using data provided by DECC and DEFRA.

For capital allowances in Northern Ireland, the tax base is the relevant energy saving plant or machinery expenditure made by businesses in Northern Ireland that could be affected by this measure. This is estimated using information from the DECC.

For the aggregates levy, the tax base is the volume of primary aggregates commercially exploited in the UK and is estimated from historical tax returns, data from primary and recycled aggregates and ONS construction output.
For the carbon price floor, the tax base is the solid fuel that will be brought into Carbon Price Floor by the measure and is estimated using data from The Digest of UK Energy Statistics.

Costing

In each case the costing is arrived at by applying the appropriate pre- and post-measure tax regimes to the relevant tax base. For ECAs an additional adjustment is made to account for take-up. For capital allowances in Northern Ireland and the aggregates levy, small behavioural adjustments are made to account for changes in activity or expenditure in response to the measure. For the carbon price floor, the costing assumes that the behavioural effect will lead to significant switching from electricity generation using solid fuels to electricity generation using natural gas.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Enhanced capital allowances	+5	+15	+25	+30	+20
Capital allowances in Northern Ireland	0	+5	+5	+10	+10
Aggregates levy	-10	-15	-15	-15	-15
Carbon price floor	+5	+5	+5	+5	+5

Treatment of building society capital instruments

Measure description

This measure clarifies the tax treatment of building society capital instruments which are compliant with Basel III. In the wake of the new rules, instruments issued by building societies with similar properties to equity capital will be treated as such for tax purposes.

The tax base

The tax base is the amount of corporation tax paid by building societies as well as the income tax paid by the sector on behalf of individual investors in their core capital. This is information is collected from HMRC administrative records.

Costing

The Exchequer impact arises from the fact that debt interest is deductable against corporation tax whereas the cost of normal equity and capital instruments with the properties of equity are not.

The amount of capital that is switched into instruments that are Basel III compliant and the timing of this process is estimated from HMRC models, as well as commercial accounts records for the sector; projected forward using the OBR's forecast for economic growth.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	+20	+20	+20	+20	+30

Areas of uncertainty

The main areas of uncertainty around this costing relate to the rate at which instruments are replaced so as to become compliant with Basel III and the rates of return the sector will be required to pay on these new equity-like capital instruments.

Amendments to cap on income tax reliefs

Measure description

This measure excludes share loss relief relating to the Enterprise Investment Scheme as well as Seed Enterprise Investment Scheme and overlap relief from the cap on unlimited income tax reliefs. The cap was announced at Budget 2012 and will be effective from April 2013.

The tax base

The tax base is estimated using data on reliefs from self assessment tax returns for 2008-09. These are projected forward in line with the OBR's forecast for earnings growth.

Costing

The static Exchequer impact is calculated by applying the pre-and post-measure tax regimes to the tax base described above. The costing makes allowance for behavioural responses that impact on the yield from the reliefs cap.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-20	-10	-10	-10

Areas of uncertainty

In addition to uncertainties surrounding the OBR's economic forecasts, the main uncertainties relate to the use of reliefs going forward and the extent of the behavioural impact.

Capital Gains Tax: disposal of UK residential property

Measure description

At Budget 2012, the Government announced the introduction of a charge to Capital Gains Tax (CGT) for gains on the disposal of residential properties with a value greater than £2 million and held by non resident non natural persons (NNPs). The Government subsequently announced that the scope would be extended to UK resident NNPs but would only apply to those entities subject to the Annual Tax on Enveloped Dwellings.

CGT will apply at 28 per cent to gains accruing on or after 6 April 2013 on disposals made by certain NNPs of UK residential property valued at over £2 million that have been subject to the ARPT (although it will be possible to elect for the gain or any loss to be calculated based on the whole period of ownership). For those NNPs within the charge to corporation tax the proportion of the gain accruing after 6 April 2013 will be subject to CGT.

The tax base

The tax base for the CGT measure is the value of chargeable gains accrued from April 2013, from the disposal of residential properties sold for over £2 million by UK resident NNPs. These estimates are derived from tax data and the OBR's economic forecast.

Static costing

The static costing is calculated by applying the difference between the pre and post measures tax regimes to the tax base described above. The costing takes into account a range of behavioural effects, including changes to transaction volumes of affected properties and some de-enveloping from the NNPs, with resulting gains, on which CT and CGT is chargeable.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	+25	0	0	+5	+5

Areas of uncertainty

There are uncertainties in the stock and value of relevant properties, the volume of transactions affected by the measures, the average gain from the disposal of these properties and the behavioural responses to these measures.

Bank Levy increase

Measure description

The Bank Levy was introduced with effect from 1 January 2011. This measure increases the effective full rate of the Bank Levy from 1 January 2014 onwards to 0.142 per cent, offsetting the effect of the reduction in Corporation Tax on the banking sector. A proportionate increase will be made to the half rate, also with effect from 1 January 2014. The full rates are shown in the table below.

Bank Levy rate (per cent)

	2013	2014	2015	2016	2017	2018
Bank Levy rate	0.130%	0.142%	0.142%	0.142%	0.142%	0.142%

The tax base

The tax base is estimated from the latest receipts data collected by HMRC from those banks liable to pay the Bank Levy. The tax base is projected forward across the forecast period using assumptions about future underlying balance sheet growth as well as behavioural impacts (as assumed for the introduction of the Bank Levy and updated according to more recent research).

Static costing

The static costing is calculated by applying the change in rate to the tax base described above. Most banks are likely to start paying the extra tax arising from the additional rate as part of their July 2014 quarterly instalment payment.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+195	+250	+250	+250

Post-behavioural costing

The costing assumes that behavioural changes as a consequence of the increase in the rate for 2011 and beyond are proportionate to those assumed for the introduction of the Levy. The overall behavioural assumption is in line with that set out in the June Budget 2010.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+195	+250	+245	+250

Areas of uncertainty

The main uncertainties in this costing are around the Bank Levy tax revenue forecast on which it is based and the behavioural effects.

Carbon reduction commitment energy efficiency scheme: removal of schools

Measure description

This measure removes English state schools from the CRC from April 2014.

The tax base

The tax base for this measure is the reduction in the emissions covered by the CRC due to the removal of schools from the scheme. The measure reduces the emissions covered by CRC in two ways:

- removing emissions from English state schools; and
- removing emissions from some local authorities because the exclusion of their schools from CRC takes them below the threshold for participation in CRC.

The reduction in emissions is estimated by the Department of Energy & Climate Change (DECC) using CRC participant reports and externally commissioned research into public sector emissions. Estimates of emissions are grown in line with DECC's projections of energy demand to produce the forecast tax base.

Costing

The static costing is calculated by multiplying the tax base above by the price of permits in each year. The cost of this measure in 2014-15 is funded by a reduction in RDEL expenditure which is not accounted for here.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	-65	-65	-65	-65

Areas of uncertainty

The main area of uncertainty is the tax base, which depends upon future energy use by schools.

Tax repatriation from Crown Dependencies

Measure description

This measure puts in place disclosure facilities to allow UK taxpayers with assets in the Isle of Man, Guernsey and Jersey to settle with HMRC in relation to past unpaid tax liabilities. The measure runs alongside the introduction of enhanced automatic tax information exchange agreements[3] between these jurisdictions and the UK, which will require financial institutions in these jurisdictions to automatically report information on accounts held by UK residents.

The tax base

An estimated £8.5 billion of funds held by UK residents in the Isle of Man, Guernsey and Jersey are affected by this measure; this provides the tax base for the disclosure facility. The base for the information exchange arrangements will be smaller, due to the deduction of the tax, interest and fines from earlier disclosures and the movements of assets, which will be partly offset by compliance yield from the addition of funds that did not use the disclosure facility. The tax base is £3.4 billion and is increased by 4 per cent a year.

Costing

The costing is the tax base multiplied by the tax rate, which is based on previous similar arrangements with other jurisdictions. Adjustments are made to account for individuals moving funds to other jurisdictions and avoidance of the agreement.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	+80	+240	+325	+235	+170

Areas of uncertainty

There are significant uncertainties around the tax base and behavioural effects.

[3] Based on the recent UK-US agreement to Improve International Tax Compliance and to Implement FATCA

General Anti-Abuse Rule

Measure description

This measure commits to the introduction of a general anti-abuse rule (GAAR) following the principles recommended by Mr Graham Aaronson QC[4]. This would be highly targeted on abusive avoidance that has abnormal features and is an unreasonable exercise of tax choices. The measure will be introduced in Finance Bill 2013.

The tax base

The tax base comprises tax avoided by highly abusive arrangements in personal and corporate tax. Those affected are likely to be very affluent individuals or large corporates that undertake highly contrived tax avoidance. The base is derived from HMRC's estimate of the overall tax gap in 2011-12 and projected in line with OBR forecasts for earnings and profits.

Static costing

The costing is calculated using an analysis of different scenarios. Yield for the GAAR takes time to flow due to time for tax returns to be made, risks worked and considered by a new Advisory Panel.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	0	+20	+40	+85

Post-behavioural costing

A behavioural effect is included to allow for those users that choose to cease their avoidance activity, resulting in an acceleration of Exchequer yield in the first two years. An adjustment is made to allow for those that switch to alternative avoidance. The GAAR is also expected to have a substantial impact on protecting existing tax bases by preventing the emergence of new avoidance schemes, however these are not included in the OBR's forecast.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+60	+50	+40	+85

Areas of uncertainty

This costing has uncertainties around the tax base, the timing of cases, the flow of yield and the size of the behavioural effect.

[4] http://www.hm-treasury.gov.uk/d/gaar_final_report_111111.pdf

Offshore employment intermediaries: anti-avoidance

Measure description

This measure puts in place arrangements to allow HMRC to counter the avoidance of employment taxes (including Class 1 Secondary "employer" National Insurance contributions (NICs)) by offshore intermediaries. This is effective from April 2014.

The tax base

The tax base is estimated by reviewing PAYE returns from employers located offshore and identifying cases where employer contributions were lower than expected. The tax base is grown in line with HMRC administrative data and the relevant elements of the OBR's economic forecast.

Costing

The costing is the difference between the full employer NICs liabilities on the tax base and the liabilities currently being reported on those returns. The Exchequer impact is adjusted to allow for alternative avoidance schemes, leading to attrition in expected revenue.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+80	+85	+85	+90

Areas of uncertainty

The main uncertainties are around the estimate of the employer NICs loss in 2012-13, the number of schemes currently engaged in this form of avoidance and the rate of attrition.

Partnerships: anti-avoidance

Measure description

This measure will ensure that employees of Limited Liability Partnerships (LLPs) can no longer be treated, for tax purposes, as if they are members of the partnership. It will also stop partnerships with a corporate member allocating profits, expenses and losses artificially to minimise tax liabilities. The measure will be introduced in April 2014.

The tax base

The tax base is estimated by combining data from Companies House, Financial Account Made Easy (FAME), HMRC data and the Office of National Statistics (ONS) Standard Occupational Classifications (SOC 2010). Certain classes of active Limited Partnerships (LPs) and LLPs that are likely to be affected by this measure were identified by filtering the base LP/LLP population on profiled characteristics of avoider businesses. Sub populations were derived for both the employment element and the profit shifting element. The former was then combined with tax adjusted wage data from the SOC and Annual Survey of Hours and Earnings and the latter was combined with CT computations to estimate their respective magnitudes.

Costing

The costing for the employment element is estimated using information from the Annual Survey of Hours and Earnings. The average income tax and relevant NIC of employees (with similar skills in comparable industries) are applied to the jobs identified in the tax base.

A large sample of self-assessment and corporation tax is used to estimate the tax lost from partnerships which are thought to be shifting profits, expenses or losses, between the self-assessment and corporation tax regimes to minimise their tax.

Adjustments are made to take into account partnerships using other forms of avoidance after this measure is introduced, leading to attrition of the expected revenue.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+125	+365	+300	+285

Areas of uncertainty

The main areas of uncertainty around this costing relate to estimates of the tax base and the rates of attrition.

Corporation tax losses: anti-avoidance

Measure description

This measure consists of new rules to prevent groups buying losses from unconnected parties, and the closure of three loopholes involving loss manipulation.

The tax base

The tax base is the value of losses which this measure is aiming to target and is estimated to using information collected by HMRC on known avoidance schemes and from information on tax returns. The tax base is grown in line with the OBR's forecast for profits.

Costing

The static Exchequer impact is calculated by applying the pre-Budget and post-Budget tax regimes to the tax base. Adjustments have been made to allow for companies finding other ways of reducing their tax liabilities tax over time.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	+260	+305	+270	+205	+190

Areas of uncertainty

In addition to uncertainties surrounding the OBR's economic forecasts, the main uncertainties in this costing relate to the estimates of the tax base and the behavioural effect.

Loans from close companies to their participators: anti-avoidance

Measure description

This measure prevents avoidance of the tax on loans made by close companies to individuals with a share or interest in the company (participators). This will bring these arrangements within the scope of a tax charge of 25 per cent on loans or advances of money from close companies to their participators. The measure comes into force with immediate effect from 20 March 2013.

The tax base

The tax base is estimated by identifying close companies with no subsidiaries, owned by individuals and members of a Limited Liability Partnership, using information from the Financial Accounts Made Easy (FAME) database and information from tax returns. Information about those companies' debtors is used to estimate the tax base.

Costing

The costing assumes that as a result of the measure loans will continue to be made to participators, but subject to a flat rate tax of 25 per cent. Adjustments have been made to allow for individuals finding other ways of avoiding tax over time.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+65	+75	+70	+60

Areas of uncertainty

The main area of uncertainty in this costing is the estimation of the tax base and the behavioural effects.

Inheritance tax and stamp duty land tax: anti-avoidance

Measure description

Budget 2013 announced the following measures on inheritance tax (IHT) and stamp duty land tax (SDLT):

- SDLT subsales: this measure prevents avoidance related to the use of stamp duty land tax (SDLT) transfer of rights ("subsale") rules. As forewarned by the Chancellor at Budget 2012, the measure includes retrospective legislation which will have effect from 21 March 2012; and
- IHT: limiting the deduction for liabilities: this measure closes an IHT loophole that allows a deduction from the value of an estate for an outstanding debt regardless of whether or not the debts are paid after death, or how the borrowed funds have been used.

The tax base

The tax base for SDLT subsales is the property transactions that have been using avoidance schemes related to the SDLT sub-sales rules. This is estimated using HMRC intelligence on users of the schemes. The tax lost is grown in line with the OBR's SDLT forecast.

The tax base for limiting the deduction of liabilities is the level of loans in schemes which are being deducted from the estate before IHT is calculated and which exploit current tax rules. This is estimated using data from tax returns.

Costing

The costing for SDLT subsales is the tax currently being lost through the use of these schemes, with an adjustment to allow for users moving to alternative avoidance schemes, leading to attrition of the expected revenue.

The costing for limiting the deduction of liabilities assumes that as a result of this measure three quarters of loans are repaid and income tax, which would not otherwise have been received, is charged on the loan's interest at an average rate of 40 per cent. The remaining quarter would be charged IHT on the full amount of the loan. A small adjustment is made to allow for alternative avoidance schemes.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
SDLT subsales	+45	+35	+30	+25	+25
IHT: limiting deduction of liabilities	+5	+20	+15	+15	+15

Areas of uncertainty

In addition to uncertainties surrounding the OBR's economic forecasts, the main uncertainties in this costing relate to assumptions around the tax base and the rate of attrition.

Penalties in avoidance cases

Measure description

This measure creates an obligation for users of an avoidance scheme where a test case has failed in litigation to disclose to HMRC details of the tax advantage they have gained and amend their returns accordingly, or confirm that they stand by their original return. A tax-geared penalty would be charged, subject to safeguards, if they failed to take reasonable care.

The tax base

The tax base is the tax advantage related to users of avoidance schemes where a test case has failed. This is estimated using HMRC information on previous tax settlements, and is projected forward in line with the OBR's forecasts for earnings and profits similar to the forecasts for income and corporation tax revenues, two of the main taxes within scope of this measure.

Costing

The static costing is calculated by applying the penalty rate to the tax base described above. The estimates of the timing of the receipt of penalties has been based on information from past litigation cases. Adjustments have been made to take into account some cases going to court to challenge the penalty. An adjustment is made to allow for scheme users settling earlier with HMRC to ensure a lower penalty rate or to avoid the penalty altogether.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+55	+60	+5	+10

Areas of uncertainty

A relatively large degree of uncertainty is related to this costing, in particular around the tax base and the behavioural impact.

Avoidance schemes: enhanced information powers

Measure description

This measure introduces enhanced information powers on originators of aggressive tax avoidance schemes and the intermediaries who market them. Promoters will be required to reveal details of products and make clients aware of the risks of using them. This information will enable HMRC to identify new schemes and mitigate the risks. New penalties will be introduced for non-compliance. Following consultation, the measure will be legislated for in Finance Bill 2014.

The tax base

The tax base is the amount of tax sheltered in these non-disclosed avoidance schemes. It is estimated by looking at known promoters within HMRC's register of disclosed tax avoidance schemes (DOTAS) and then grown with OBR's forecasts for earnings and profits. For 2014-15, the tax base is estimated at £65 million.

Static costing

The aim is to reduce the use of these aggressive tax avoidance schemes. As such, the costing for the measure mostly derives from the positive behavioural effect rather than through the collection of penalties.

Static Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	neg.	neg.	neg.	neg.

Post-behavioural costing

The new information powers combined with the deterrent of penalties are expected to reduce the use of these schemes. An adjustment is also made to allow for those taxpayers that switch to alternative avoidance behaviour.

Post-behavioural Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	+5	+35	+35	+35

Areas of uncertainty

There remains uncertainty around the tax base and the behavioural effect.

Debt cap amendments

Measure description

This measure makes changes to the worldwide debt cap by tightening the rules that allow groups to claim an exemption for the debt held within their treasury companies, from April 2013.

The tax base

The measure impacts on the corporation tax relief given for interest payments on UK corporate debt. It is expected that the restriction will lower the cost to the Exchequer of interest relief. The tax base is estimated using HMRC administrative data and tax planning identified by HMRC.

Costing

The Exchequer impact is calculated on a group by group basis using the value of tax planning identified by HMRC in this specific area. An adjustment is made to allow for individuals finding other ways of avoiding tax over time.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	+50	+60	+50	+35	+30

Areas of uncertainty

The main area of uncertainty is around the degree of future tax planning around the Worldwide Debt Cap restrictions imposed on groups operating within the UK.

Income tax: transfer of assets abroad

Measure description

This measure makes changes to the Transfer of Assets legislation aimed at preventing UK-residents avoid income tax by transferring assets so that income generated becomes that of a person offshore. The change involves the introduction of an additional exemption test.

Costing

The Exchequer impact is estimated from HMRC administrative data on the tax collected under the Transfer of Assets Provision, and estimating how much tax would be lost under the additional exemption test.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	0	-10	-10	-10

Debt: Improving coding out

Measure description

This measure introduces, from April 2015, a graduated scale of coding out limits, with a higher limit for those with higher earnings. It also allows for debts to be split across years.

The tax base

The tax base for this extension to coding out is the population of debtors with Tax Credit (TC) and Self Assessment debts who are in PAYE employment.

Costing

The costing is calculated by applying the pre- and post-measure average collection rates to the tax base described above.

Exchequer impact (£m)

	2013-14	2014-15	2015-16	2016-17	2017-18
Exchequer impact	0	0	+45	+40	+45

Areas of uncertainty

The main uncertainties in this costing relates to the rate of debt collection.

A Indexation in the public finance forecast baseline

A.1 The following table shows the indexation assumptions that have been included in the public finance forecast baseline, including all pre-announcements, for Budget 2013 policy costings. Unless otherwise stated, changes are assumed to take place in April each year and tax rates are assumed to be fixed.

Forecast area	Element	Default indexation assumed in baseline	Pre-announced policy changes from 2013-14 onwards
Income tax	Personal allowances [1]	RPI[3], increase rounded up to the nearest £10; CPI once personal allowance for those aged under 65 reaches £10,000.	Personal allowance for those aged under 65 increased by £1,335 in cash terms in 2013-14
	Basic rate limit	RPI[3], increase rounded up to the nearest £100; CPI[4] once personal allowance for those aged under 65 reaches £10,000.	Basic rate limit reduced by £2,360 in cash terms in 2013-14. Basic rate limit reduced by £145 in 2014-15.
	Starting rate limit for savings income	RPI[3], increase rounded up to the nearest £10 until 2015-16, CPI[4] thereafter.	
	Threshold for additional rate	Fixed at £150,000.	
	Income limit for tapered withdrawal of personal allowances	Fixed at £100,000.	
	Pensions income tax relief annual allowance	Fixed at £50,000.	Annual allowance reduced to £40,000 in 2014-15
	Pensions income tax relief lifetime allowance	Fixed at £1.5 million.	Lifetime allowance reduced to 1.25 million in 2014-15
	Individual Savings Accounts limits for cash and equities	CPI rounded to the nearest £120.	
	Threshold for Child Benefit income tax charge	Fixed at £50,000.	
NICs	Lower earnings limit	CPI,[4] rounded down to the nearest £1pw.	

Forecast area	Element	Default indexation assumed in baseline	Pre-announced policy changes from 2013-14 onwards
	Primary Threshold / Lower Profits Limit	CPI,[4] rounded to the nearest £1pw/£5pa.	
	Secondary Threshold	RPI[3], increase rounded to the nearest £1pw until 2015-16, CPI[4] thereafter.	
	Upper Earnings Limit / Upper Profits Limit	Aligned with income tax higher rate threshold.	Upper Earnings Limit and Upper Profits Limit will increase by 1 per cent in 2014-15 and 2015-16.
	Small Earnings Exception	CPI,[4] rounded up to the nearest £10pa.	
	Contribution rates	Fixed percentages, apart from Class 2 and Class 3 weekly rates which rise by CPI, rounded to the nearest 5p.	
Capital gains tax	Main annual exempt amount	CPI,[4] rounded up to the nearest £100.	Main annual exempt amount and annual exempt amount for trustees will increase by 1 per cent in 2014-15 and 2015-16.
	Annual exempt amount for trustees	CPI,[4] rounded up to the nearest £50.	
	Lifetime allowance for entrepreneurs' relief	Fixed at £10m.	
Inheritance tax	Nil rate band	CPI,[4] rounded up to the nearest £1,000.	Nil rate band will be frozen until 2014-15 inclusive and increased by 1 per cent in 2015-16.
Disability Benefits: Disability Living Allowance, Attendance Allowance, Carer's Allowance	All main rates	CPI.	
Working-age social security benefits and payments: Jobseeker's Allowance, Income Support, Employment and Support Allowance, Housing Benefit; Incapacity Benefit; Statutory Maternity, Paternity, Adoption and Sick Pay; Maternity Allowance	All main rates	Generally CPI.	Working-age social security benefit personal allowances; ESA WRAG component; all statutory payments; maternity allowance to be up-rated at 1% for three years from 2013-14.

Forecast area	Element	Default indexation assumed in baseline	Pre-announced policy changes from 2013-14 onwards
Basic State Pension	All categories	Higher of earnings, CPI or 2.5%.	
Additional State Pension	All elements	CPI. [4]	
Pension Credit	Guarantee Credit	Earnings.	
	Savings Credit	Maximum Savings Credit award frozen in cash terms for 4 years from April 2011. It is then frozen in real terms.	
Child Tax Credit	Family element Child element Disabled and enhanced disabled child elements	Fixed at £545 per year. CPI,[4] rounded up to the nearest £5. CPI,[4] rounded up to the nearest £5.	Child element of Child Tax Credit uprated by 1 per cent for 3 years from 2013-14.
Working Tax Credit	All award elements Maximum eligible childcare costs (for 1 and 2+ children)	CPI,[4] rounded up to the nearest £5. Fixed at £175 and £300 per week.	Basic and 30 hour elements frozen for three years from 2011-12, and uprated by 1 per cent in 2014-15 and 2015-16. Couple and lone parent elements uprated by 1 per cent for 3 years from 2013-14.
Child Benefit	Eldest (or only) child and subsequent children amounts	CPI,[4] rounded to the nearest 5 pence.	Frozen in 2012-13 and uprated by 1 per cent in 2014-15 and 2015-16.
Corporation tax	Marginal relief lower limit Marginal relief upper limit Small profits rate	Fixed at £300,000. Fixed at £1.5m profit. Fixed at latest announced rate.	
Stamp Duties	Stamp duty land tax thresholds	Fixed at £125,000, £250,000, £500,000, £1m and £2m.	
Climate Change Levy	Levy amount	RPI.[5]	
Aggregates Levy	Levy amount	RPI.[5]	Aggregates levy will increase to £2.10 per tonne in 2013-14.

Forecast area	Element	Default indexation assumed in baseline	Pre-announced policy changes from 2013-14 onwards
Landfill Tax	Tax rates	RPI.[6]	Landfill tax rates will increase by £8 per tonne until 2014-15.
Vehicle Excise Duty	Duty rates	RPI,[6] rounded to the nearest £1 or £5.	
Air Passenger Duty	Duty rates	RPI,[6] rounded to the nearest £1.	
Tobacco Duties	Duty rates on all tobacco products	RPI.[6]	Increase by 2 percentage points above RPI every year until 2014-15 inclusive.
Alcohol Duties	Duty rates on all alcohols	RPI.[6]	Increase by 2 percentage points above RPI every year until 2014-15 inclusive.
Fuel Duties	Duty rates on petrol and diesel [2] Duty rate on liquefied petroleum gas (LPG)	RPI.[6] In line with changes in petrol and diesel duty rates.	Defer the RPI increase until September in each year of this Parliament. Increase rate by 1p per litre above changes in petrol and diesel duty rates, every year until 2014-15 inclusive.
VAT	VAT registration threshold	RPI,[7] rounded to the nearest £1,000.	
Gaming Duty	Gross gaming yield bands	RPI,[7] rounded to the nearest £500.	
Business Rates	Business rates multiplier	RPI,[3] rounded to the nearest 3 significant figures.	

Office for
**Budget
Responsibility**

Certification of policy costings

B Office for Budget Responsibility: certification of policy costings

Office for Budget Responsibility: certification of policy costings

B.1 The Office for Budget Responsibility (OBR), led by the Budget Responsibility Committee (BRC), has certified that all of the costings of Budget 2013 policies described in this document represent a reasonable and central view given the information currently available.

B.2 The OBR has not scrutinised the costings of policies within Departmental Expenditure Limits (DELs) where the total cost or yield is wholly determined by a Government policy decision. This includes, for example, industrial strategy and growth vouchers.

B.3 At this Budget the OBR has also not scrutinised the costing for DCMS reprofiling. We have not been required to certify this measure because it is neutral over the forecast period. The OBR is satisfied that it simply moves spending across fiscal years and leads to no overall change in spending over the forecast period.

B.4 We are publishing a new table in the supplementary fiscal tables which accompany the *Economic and fiscal outlook (EFO)* document on our website, which will set out how each of the measures shown on the Treasury's Budget policy decisions table contribute to the different components in our forecast, as set out in Table 4.3 of our March *EFO*. This as an important step in providing additional transparency on how the policy measures are reflected in our forecast.

Methodology

B.5 All costings have been produced on the basis of the OBR's economic forecast published in the March 2013 *EFO*.

B.6 The OBR scrutinises the costings submitted by government departments that are produced using the methodologies set out in this document. These costings take into account the direct effects of a policy on the component of taxes or spending to which the policy applies, and closely-related components. They do not take into account the indirect effect of policy measures on the wider economy. Any such effects are incorporated in the OBR's economic forecast. Measures with such effects in this Budget are set out from paragraph B.8.

Scrutiny and challenge process

B.7 The OBR was provided with detailed analysis and had full access to the information used in the costings. The assumptions, judgements and methodology used in costings were scrutinised by the BRC and OBR staff. The OBR attended a series of Star Chamber meetings with the officials responsible for producing the costings for some measures to discuss the detail of these assumptions and judgements. In the cases where the BRC felt that a different methodology or judgement was required, changes were made to the costings in line with BRC views, and a further set of discussions took place. Through this iterative process of scrutiny, the BRC was able independently to challenge the Government's costings in detail, and ensure its views were fully reflected in the Treasury's final costings.

Uncertainty

B.8 The OBR emphasises the uncertainty which surrounds forecasts of the public finances. Policy costings are subject to a similar, if not greater, level of uncertainty for a number of reasons. In many cases, costings are highly sensitive to assumptions about the future behavioural responses of taxpayers or benefit recipients. So, for example, capital gains tax policy can have an unpredictable effect on the levels of error, fraud and avoidance in the tax system. In addition, it is difficult to analyse the accuracy of previous policy costings to draw lessons for future costings, as it is analytically complex to separate the eventual cost or yield associated with a particular measure from other changes in total receipts and expenditure and requires a suitable counterfactual.

B.9 In respect of the specific policy costings at this Budget the OBR identified the following areas of particular uncertainty:

- **Tax repatriation from Crown Dependencies:** The estimated revenue raised by these measures is uncertain as there is little hard information about the value of UK individuals' financial assets in these Crown Dependencies. There is further uncertainty in the costing around how individuals affected will respond to the policy.
- **Other anti-avoidance measures:** a number of anti-avoidance measures have been introduced in the Budget (e.g. *Partnerships: anti-avoidance*, *Corporation tax losses: anti-avoidance* and *Stamp duty land tax: anti-avoidance*). These costings will be subject to much uncertainty as it is difficult to know how much avoidance using these schemes is currently undertaken and projecting these amounts into the future is even more uncertain. In most cases, the yield from these measures will depend on the extent to which they lead to changes in the behaviour of those taking advantage of these schemes to avoid tax which is difficult to predict. The costings have been adjusted to account for the development of new avoidance schemes over the forecast period, reducing the revenue the measures are assumed to raise.
- **Stamp duty: abolish schedule 19 charge:** this measure creates incentives for those investing in equity to do so via a managed fund instead of buying shares directly. This is because the measure removes the Stamp Duty charge on managed funds. Some of this behaviour has been factored into the costing; however there is considerable uncertainty around how widespread switching driven by this measure will be.
- **Employee shareholder status:** the cost of this measure is dependent on the take-up of this policy. In turn this will be determined by how many of those eligible for the status decide to take it up on the basis that gains from relief on income tax and National Insurance Contributions outweigh the loss of certain employment rights. The assumed take-up rate is uncertain and compounds the uncertainty of the costing of the original measure introduced at the Autumn Statement 2012.
- **Right to buy:** This policy is expected to increase property sales which should lead to increased public sector net capital receipts, partially offset by lower net public sector income. However there is particular uncertainty around the level of increased sales that the wider eligibility and higher Right to Buy discounts in London will encourage.

- **Single-tier pension reform:** The OBR considers this costing to be central and reasonable within the current forecast period. The OBR notes that the Government has intended for this policy change to be broadly neutral in spending in the long term. However, the long-term costing of a policy change of this significance and complexity, affecting some £80 billion of social security expenditure, is inevitably subject to large uncertainties. We would highlight the following areas of the single-tier pension costings as particularly uncertain in the long term:
  - there are a number of policy parameters which are yet to be finalised, including the minimum qualifying period required to get a state pension, the annual increment from deferral of state pension, and the starting rate of the single-tier pension;
  - the transitional arrangements are complex, and the OBR has yet to examine DWP's modelling of the transitional arrangements;
  - the costs are sensitive to potential changes to the state pension age and how state pension will be uprated in the future; and
  - the overall single-tier pension costing is sensitive to changes in the macroeconomic forecast of inflation and earnings.

Indirect effects on the economy forecast

B.10 The measures in the Budget are expected, in aggregate, to have a limited impact on our economic forecast. Further details are provided in Chapter 3 of the *EFO*. There is a small negative impact from lower current departmental spending in 2013-14 and 2014-15. This is offset from 2013-14 by a number of other measures, including an increase in the personal allowance and the introduction of an employer NICs allowance in 2014-15. Taken together these measures reduce GDP growth by less than 0.1 per cent in 2013 and increase GDP growth by less than 0.1 per cent in 2014. The reduction in the main rate of corporation tax from 2015-16 has a small positive effect on business investment in our forecast, while the decision to abolish the contracted-out NICs rebate slightly reduces disposable income and household consumption.

B.11 The OBR's inflation forecast has been adjusted to reflect the decisions to cancel the September 2013 fuel duty increase and to cancel the beer duty escalator of RPI+2 per cent and to reduce beer duty by 2 per cent in 2013-14. These measures are estimated to reduce annual CPI inflation by around 0.1 percentage points at the end of 2013 and in the first half of 2014 relative to the continuation of pre-announced changes.

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This document can be found in full on our website: http://www.hm-treasury.gov.uk

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