HM Government

# Autumn Statement 2013:
# policy costings

December 2013

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ISBN 978-1-909790-45-2
PU1584

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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 Budget 2013, 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 Autumn Statement 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 Assumptions and methodologies underlying costings for policies which were announced at the Spending Round 2013 are set out in the policy costings document from the event.[2]

1.4 Costings for AME measures do not have a direct effect on borrowing after 2015-16 as they are contained within the overall spending envelope for Totally Managed Expenditure (TME).

1.5 Annex A, 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] https://www.gov.uk/government/publications/spending-round-2013-documents.

# 2 Policy costings

The following policy decisions are included in this chapter:

- Fuel duty: cancel 2014 increase
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# Fuel duty: cancel 2014 increase

## Measure description

This measure cancels the September 2014 Retail Prices Index (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 2012-13 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 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -425 | -750 | -780 | -800 | -825 |

## 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% reduction in pump prices, the model assumes a short-term 0.07% 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 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -415 | -710 | -735 | -755 | -780 |

## Areas of uncertainty

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

# Help to Work: benefit savings

## Measure description

This measure introduces increased support for claimants of Job Seeker's Allowance (JSA) or those in the Universal Credit full conditionality group who complete the Work Programme; this support consists of the Mandatory Intervention Regime (MIR); Community Work Placements (CWP); or, a period of daily signing. This measure was partly introduced in 2013-14 and will be fully introduced throughout 2014-15. This note only discusses the elements of the costing which affect AME. DEL costs of the measure are shown in Table 2.1 of the Autumn Statement document.

## The cost base

The cost base is estimated using Department of Work and Pensions (DWP) administrative data on JSA volumes and DWP's Policy Simulation Model for Universal Credit and is grown in line with OBR Autumn Statement 2013 forecasts determinants.

## Costing

The reduced time spent on benefits as a result of the measure is estimated using evidence that claimants subject to more rigorous signing regime, more intensive Jobcentre Plus support or a period of full time work experience will reduce their durations on JSA or on Universal Credit.[1] [2]

The costing is calculated by combining reduced durations on benefit with the average daily saving made when claimants move off JSA or Universal Credit.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact (AME) | +25 | +130 | +140 | +85 | +60 | +40 |

## Areas of uncertainty

The main uncertainty in the costing relates to the amount of time people will spend off benefits.

[1] http://research.dwp.gov.uk/asd/asd5/rports2005-2006/rrep382.pdf

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223103/20121203_svltu_ad_hoc_stats_publish.pdf

# 12 month extension of Small Business Rate Relief doubling

## Measure description

The Small Business Rate Relief (SBRR) provides 50% relief for eligible businesses, and is funded through the business rates system. This measure doubles the relief given to businesses eligible for SBRR for a further 12 months from 1 April 2014, at Exchequer cost. It offers 100% relief up to a rateable value of £6,000, with relief tapering to the SBRR threshold of £12,000 rateable value.

## The tax base

The tax base for this measure is the amount of relief given to businesses with a hereditament (non-domestic property) eligible for SBRR. The primary data source is the Valuation Office Agency's (VOA) 2010 rating list of non-domestic properties.

## Costing

The starting point for the costing is data on the number of non-domestic properties in England with a rateable value of less than £12,000. This figure is adjusted to account for empty properties and premises ineligible for SBRR. These adjustments are based on VOA data on individual premises, DCLG data from local authorities and survey results. The result is an estimated number of eligible properties of 540,000.

Administrative data for the relief suggests that around 95% of the static yield will be claimed by businesses.

An adjustment is made to account for the fact that business rates are deductible for Corporation Tax (for companies) and income tax self assessment (for the self-employed). To estimate this impact, an average effective business tax rate is assumed.

The costing includes the Barnett consequentials, which are calculated as 19% of the business rate cost at 95% take-up, net of business tax adjustments.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -500 | +65 | +10 | 0 | 0 |

# Business rates: cap at 2%

## Measure description

Business rates are an annual tax on non-domestic property. The rate is increased each year in line with inflation (the figure used is the RPI from the preceding September). This measure caps the 2014-15 increase in business rates at 2%.

## The tax base

The tax base for this measure is the 1.8 million premises that are liable for business rates. The primary data source is the OBR forecast for future business rates receipts and the OBR forecast for RPI.

## Costing

The costing was calculated by applying the pre- and post-measure business rates regime to the tax base described above.

An adjustment is made to account for the fact that business rates are deductible for Corporation Tax (for companies) and income tax self assessment (for the self-employed). To estimate this impact, an average effective business tax rate is assumed.

The costing includes the Barnett consequentials, which are calculated as 19% of the business rate cost, net of business tax adjustments. The costing takes account of the continuation of the temporary doubling of the Small Business Rate Relief in 2014-15.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact (receipts) | 0 | -240 | -220 | -220 | -235 | -240 |
| Exchequer impact (spend) | 0 | -30 | -35 | -35 | -35 | -35 |
| Exchequer impact (total) | 0 | -270 | -255 | -255 | -270 | -275 |

# Business rates: £1,000 discount to retail premises

## Measure description

This measure grants a special discount of £1,000 to occupied retail and food and drink premises with a rateable value of £50,000 or below in 2014-15 and 2015-16.

## The tax base

The tax base for this measure is premises classified as 'retail' (including shops, takeaways, pubs and restaurants) that have a rateable value of £50,000 or below and are not empty or in receipt of 100% relief.

## Costing

The starting point for the costing is data on the number of non-domestic properties in England with a rateable value of less than £50,000 classified as 'retail'. The primary data source is the Valuation Office Agency's (VOA) 2010 rating list of non-domestic properties. This figure is adjusted to account for empty properties and premises in receipt of 100% SBRR. These adjustments are based on VOA data on individual premises, DCLG data from local authorities and survey results. The result is an estimated number of eligible properties of 300,000.

An adjustment is made to account for the fact that business rates are deductible for Corporation Tax (for companies) and income tax self assessment (for the self-employed). To estimate this impact, an average effective business tax rate is assumed.

The costing includes the Barnett consequentials, which are calculated as 19% of the business rate cost, net of business tax adjustments.

The costing takes account of the continuation of the temporary doubling of the Small Business Rate Relief in 2014-15.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -350 | -425 | +70 | +10 | 0 |

# Business rates: reoccupation relief

## Measure description

This measure introduces a temporary 50% relief on business rates bills for new occupants of retail premises that have been empty for a year or more at the point of occupation. The duration of the relief for the new occupant is 18 months. The relief is available to businesses which move into empty property on or after 1 April 2014 and on or before 31 March 2016.

## The tax base

The tax base for this measure is retail premises that have been empty for a year or more. The primary source of data is DCLG data from local authorities. After assumptions have been applied, it is estimated that between 14,000 and 21,000 retail premises have been empty for a year or more.

## Costing

The costing is estimated by applying the pre- and post-measure business tax regimes to the tax base described above. An adjustment is made to allow for additional properties which become reoccupied as a result of the relief, which raises the proportion of all long-term empty retail premises that become reoccupied from 10% to 25%.

An adjustment is made to account for the fact that business rates are deductible for Corporation Tax (for companies) and income tax self assessment (for the self-employed). To estimate this impact, an average effective business tax rate is assumed.

The costing includes the Barnett consequentials, which are calculated as 19% of the business rate cost at 25% reoccupation rate, net of business tax adjustments. The costing takes account of the continuation of the temporary doubling of the Small Business Rate Relief in 2014-15.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -10 | -5 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in the costing relate to assumptions about the average rateable value of empty properties and the length of time which properties stay empty.

# Business rates: change to single property criteria

## Measure description

This measure aims to support growing businesses by allowing a business to retain Small Business Rate Relief (SBRR) for a year if it takes on an additional property that would otherwise have caused it to lose entitlement for SBRR. This will come into effect from 1 April 2014.

## The tax base

The tax base for this measure is businesses in receipt of SBRR. The primary data source is the Valuation Office Agency's (VOA) 2010 rating list of non-domestic properties which is adjusted using VOA data on individual premises, DCLG data from local authorities and survey results to arrive at an estimated number of eligible properties of around 540,000.

## Costing

The starting point for the costing is data on the number of changes of occupancy of low-value non-residential property in England per annum, based on HMRC stamp duty land tax data on purchases. ONS and survey data were used to estimate the total number of changes of occupancy that result in a business growing to occupy two or more properties.

An adjustment is made to account for the fact that business rates are deductible for Corporation Tax (for companies) and income tax self assessment (for the self-employed). To estimate this impact, an average effective business tax rate is assumed.

The costing includes the Barnett consequentials, which are calculated as 19% of the business rate cost, net of business tax adjustments.

The costing takes account of the continuation of the temporary doubling of the SBRR in 2014-15.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -5 | -5 | -5 | -5 |

## Areas of uncertainty

The main uncertainty in the costing relates to the behavioural effect.

# Income tax: transferrable marriage allowance

## Measure description

This measure allows married couples and registered civil partners to transfer £1,000 of the personal allowance of one spouse to the other spouse. Couples where neither partner is a higher or additional rate tax payer will be eligible to transfer. This measure will come into effect from 2015-16. The transferable amount will be uprated to maintain it at the same proportion of the personal allowance.

## The tax base

The tax base consists of up to £1,000 for every married couple or civil partnership that would stand to gain from transferring allowances. It is estimated using data from the Office for National Statistics (ONS) and administrative data on the number of married couples. The tax base is projected forward using OBR forecasts for employment and ONS population and married couple projections.

## Static costing

The static costing is estimated by multiplying the tax base described above by the basic rate of income tax.

**Static Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | -780 | -800 | -825 | -850 |

## Post-behavioural costing

A behavioural adjustment has been included to account for take up of the allowance. This is assumed initially to be 70%-75% in the first year, growing to in excess of 85% after a few years; this is then increased by an allowance for some people making retrospective claims for multiple years after the first year. Adjustments are also made to account for the migration to Universal Credit, and erroneous claims or fraud.

**Post-behavioural Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact (tax) | 0 | 0 | -520 | -655 | -755 | -895 |
| Exchequer impact (spend) | 0 | 0 | +25 | +55 | +95 | +120 |
| Exchequer impact (total) | 0 | 0 | -495 | -600 | -660 | -775 |

## Areas of uncertainty

The main uncertainties in the costing relate to the projection assumptions for the take up rates, the number of beneficiaries, and the levels of error and fraud.

# Bank Levy: review and rate increase

## Measure description

The government announced when it introduced the Bank Levy that it would review the design of the levy in 2013. A formal consultation was published in July 2013 and this measure implements design changes following that consultation, which:

- limit the protected deposit exclusion to amounts insured under a deposit protection scheme
- treat all derivative contracts as short-term
- restrict relief for a bank's High Quality Liquid Assets to a notional half rate
- align the bank levy definition of Tier One capital with the new Capital Requirements Directive from January 2014
- exclude liabilities in respect of collateral that has been passed on to a central counterparty from January 2014

This measure also increases the effective full rate of the Bank Levy from 1 January 2014 onwards to 0.156%. 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% | 0.156% | 0.156% | 0.156% | 0.156% | 0.156% |

## 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 for the design changes is the chargeable equity and liabilities or allowable deductions which will be treated differently as a result of the changes.

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 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +270 | +525 | +540 | +540 | +540 |

## 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 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +265 | +520 | +535 | +535 | +535 |

## 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.

# Employer National Insurance Contributions: abolish for under 21 basic rate earnings

## Measure description

This measure removes the employers' National Insurance Contributions (NICs) liability on earnings up to the upper earnings limit (UEL) for those under the age of 21 from April 2015. The NICs UEL is forecast to be £42,285 (annualised) in 2015-16.

## The tax base

The tax base is the earnings of individuals for whom employers would no longer be liable for employer NICs up to the UEL. The tax base is estimated using HMRC's administrative data on employers and their employees including the Survey of Personal Incomes (SPI) data. It is grown in line with the relevant elements of the OBR's economic forecast.

## Costing

The static costing is calculated by applying the pre- and post-measure tax regimes to the tax base described above. Adjustments are made to take account of increased employment of employees aged under 21 as a result of this measure take-up. Take-up is expected to be above 95% for the measure.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | -465 | -495 | -520 | -530 |

## Areas of uncertainty

The main uncertainties relate to the size of the tax base and the behavioural effects included.

# Modernising film tax relief

## Measure description

This measure will:

- increase the rate of film tax relief (FTR) to 25% for the first £20 million of qualifying expenditure, the 20% rate will apply to amounts thereafter
- reduce the UK minimum expenditure requirement from 25% to 10%
- introduce changes to modernise the cultural test for FTR

## The tax base

The tax base is expenditure on films currently claiming the FTR. This is estimated using historical HMRC data on films claiming the relief, projected forward in line with past growth rates and using market price deflators.

For the reduction in the minimum UK expenditure requirement, the tax base is films with UK qualifying expenditure between 10% and 25% of total expenditure. For the changes to the cultural test, the tax base is expenditure on English language films filmed within the European Economic Area (EEA).

The tax base is estimated using information held by the British Film Institute (BFI).

## Costing

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

A behavioural adjustment is made to account for additional inward investment and expenditure on films as a result of the measure.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -10 | -20 | -25 | -25 | -25 |

## Areas of uncertainty

The main areas of uncertainty in the costing relate to the number of films that will claim FTR in future years and the level of inward investment following the policy change.

# New Enterprise Allowance: extension to March 2016

## Measure description

New Enterprise Allowance (NEA) helps unemployed people who want to start their own business and provides access to business mentoring and financial support.

Referrals to NEA were due to end in September 2013. This measure extends funding for NEA to March 2016.

## The cost base

The costing assumes an upper limit of an additional 66,000 participants will start claiming the allowance, over 30 months to March 2016.

## Costing

It is assumed that recipients receive the weekly allowance for an average of 23 out of a maximum possible 26 weeks, and that Jobseeker's Allowance (JSA) participants would have spent an average of 6 weeks out of a maximum 26 weeks on JSA in the absence of the allowance. It is assumed that there would be similar relative take-up of the allowance by those in the Employment Support Allowance Work-related Activity Group (ESA(WRAG)) and Income Support claimants, who it is assumed would have spent 23 weeks out of 26 on benefit in the absence of the scheme. These assumptions lead to an average net unit AME cost of around £700.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact (AME) | 0 | -20 | -25 | -5 | 0 | 0 |

## Areas of uncertainty

The main uncertainty in the costing relates to the number of people who start claiming the allowance.

# Employee ownership

## Measure description

This measure introduces an income tax exemption on cash bonuses of up to £3,600 received by employees of indirectly employee owned businesses. Indirect employee ownership means that the company is wholly or partly owned on behalf of its employees, usually through a trust. This measure builds on the government's announcement at Budget 2013 to introduce a Capital Gains Tax (CGT) relief on the sale of a controlling interest in a business into an employee ownership structure. Autumn Statement 2013 also introduces an accompanying inheritance tax exemption.

## The tax base

The tax base is the number of employees within businesses that are over 50% indirectly employee owned and businesses that enter into employee ownership trust structures as a result of this measure. The tax base is estimated by using HMRC administrative data, data from tax returns and information from stakeholders.

## Costing

The costing is calculated by taking the pre- and post-measure tax regime and applying it to the tax base above. The costing is adjusted to account for underlying growth of employee owned businesses and a behavioural effect. The costing shown in Table 2.1 of the Autumn Statement document is the additional cost of the measure on top of the £50 million per year additional support for employee ownership which was announced at Budget 2013.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Total Exchequer impact | 0 | -60 | -70 | -70 | -70 | -75 |
| Additional cost | 0 | -10 | -20 | -20 | -20 | -25 |

## Areas of uncertainty

The main uncertainties are around the size of the tax base, the underlying growth rate of employee owned businesses and the behavioural effect.

# Increase to limits for Save As You Earn Option Schemes and Share Incentive Plans

## Measure description

This measure changes the limits for two tax-advantaged employee share schemes:

- the monthly limit on employee contributions into Save as You Earn Option Schemes (SAYE) will be increased from £250 to £500
- the annual limit on Share Incentive Plans (SIP) will be increased from £3,000 to £3,600 per year for free shares, and from £1,500 to £1,800 per year for partnership shares

## The tax base

SAYE contributions are deducted from net income so the increase in the monthly contributions limit does not have a material impact on the tax paid by SAYE participants. The tax base for SIP is the contributions and the associated IT and NICs paid by current employees participating in such schemes with contributions at or close to the current SIP limits.

## Costing

The costing is calculated by estimating the increased contributions by existing participants.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -5 | -5 | -5 | -5 |

## Areas of uncertainty

The main areas of uncertainties in the costing relate to the behavioural effect.

# Accelerated payments in follower cases

## Measure description

In Budget 2013, the government announced that from 2014, taxpayers who have used an avoidance scheme would be subject to a penalty if they refuse to concede their case when a 'representative case' is won by HM Revenue & Customs (HMRC) in litigation.

This measure adds to this by placing a new legal obligation on the same group of taxpayers, to pay the amounts in dispute upfront following a HMRC win in a representative case. Should the taxpayer succeed with any subsequent litigation, HMRC will repay the tax paid with interest.

## The tax base

The tax base for this measure is the tax under dispute for taxpayers that will be issued with follower penalty notices. This is estimated using HMRC information on tax under dispute and on previous tax settlements. This is combined with information on the current position of litigation, litigation success rates, and assumptions regarding the proportion of taxpayers that will be issued accelerated payment notices under this measure.

## Costing

The costing is calculated by estimating the value of tax under dispute. An adjustment is made to account for tax under dispute which would have been made in later years but which is now collected upfront, which reduces costings by £90 million in each year. Adjustments have been made to take into account taxpayers who do not pay, or who win their subsequent litigation and will be due a repayment.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +135 | +660 | -35 | -40 | -45 |

## Areas of uncertainty

The main uncertainties in this costing relate to the tax base and the behavioural impact.

# Employment intermediaries facilitating false self-employment

## Measure description

This measure amends legislation to allow HMRC to counter the avoidance of employment taxes (including Class 1 Secondary "employer" and Class 1 Primary "employee" National Insurance Contributions (NICs)) by employment intermediaries facilitating false self-employment.

## The tax base

The tax base is established using evidence from HMRC administrative data, compliance investigations, industry data and previous reports on the issue of false self-employment.

## Static costing

The static costing is generated by applying the relevant NICs rates to the tax base described above. There are certain expenses that are allowable when self-employed that are not allowable if employed and the level of these expenses has been estimated for the tax base. These expenses will reduce both National Insurance Contributions and income tax that is due.

### Static Exchequer impact (£m)

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +615 | +610 | +650 | +695 | +740 |

## Post-behavioural costing

In line with the standard methodology for anti-avoidance costings, a behavioural adjustment is made to reflect evidence of attrition in the yield from previous anti-avoidance measures.

### Post-behavioural Exchequer impact (£m)

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +520 | +425 | +380 | +415 | +445 |

## Areas of uncertainty

The main uncertainties concern the tax base and the size of the behavioural effect.

# Avoidance scheme using total return swaps

## Measure description

This measure blocks avoidance schemes where deductions are claimed for payments between group companies under derivative contracts, which are linked to company profits.

## The tax base

The tax base is a limited number of large multinational groups operating in the UK that use these schemes.

## Costing

The costing is calculated using current HMRC compliance and administrative data and projected forwards to estimate the cost in future years. The costing makes allowance for behavioural responses as companies seek other ways to reduce their UK tax liabilities.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | +40 | +40 | +20 | +10 | 0 | 0 |

## Areas of uncertainty

The main area of uncertainty is the size of any behavioural response.

# Venture Capital Trusts: preventing enhanced share buy-backs

## Measure description

This measure restricts income tax relief on individuals' investments in Venture Capital Trusts (VCTs) which are:

- conditional on a share buy-back, or where a share buy-back is conditional upon the investment or
- made within a 6 month period of a sale of shares in the same VCT

This restriction will not affect subscriptions for shares where the monies being subscribed represent dividends which the investor has elected to reinvest.

## The tax base

The tax base is the total amount of funds raised by VCTs, including the amount of enhanced share buy-backs. This is estimated using Official Statistics on funds raised by VCT's are published and projected forward in line with the OBR determinant for equity prices.

## Static costing

The static costing is the yield arising from not giving income tax relief to shares which no longer qualify. It is calculated by multiplying the 30% tax relief by the value of shares affected.

**Static Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +70 | +60 | +65 | +70 | +75 |

## Post-behavioural costing

An adjustment is made to allow for some investors altering their behaviour in response to the measure.

**Post-behavioural Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +50 | +35 | +10 | +20 | +25 |

## Areas of uncertainty

The main uncertainty in the costing relates to the behavioural response of investors to the measure.

# Oil and gas: offshore chartering

## Measure description

This measure caps the amount that independent offshore contractors may deduct against their corporation tax liability from the leasing of oil and gas capital equipment, primarily drilling rigs. It will be operational from April 2014.

## The tax base

The tax base for this measure is the revenues for drilling companies after deductible expenditure. This is estimated for the most recent year of available data using information from HMRC tax returns and industry publications and projected forward using modelled estimates for future demand and future prices for leasing rigs.

## Static costing

The static costing is the level of expenditure that would no longer qualify as an eligible tax deduction multiplied by the corporation tax rate.

**Static Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +140 | +120 | +110 | +105 | +105 |

## Post-behavioural costing

Behavioural adjustments are made for an increase in the prices charged to for use of rigs, which also leads to increased deductions of drilling costs by oil and gas operators. These effects are assumed to build up over time due to the nature of leasing contracts.

**Post-behavioural Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +140 | +115 | +100 | +90 | +80 |

## Areas of uncertainty

The main uncertainties in this costing relate to the level of expenditure in this area and the behavioural effect.

# Compensating adjustments

## Measure description

This measure closes an avoidance scheme involving wealthy individuals manipulating the "compensating adjustment" rules – part of the transfer pricing code – to extract money from connected companies whilst only paying tax at corporation tax rates rather than the higher rate of income tax.

## The tax base

The tax base has been derived using a combination of publically available data on the value of private equity transactions, as well as that identified from HMRC enquiries.

## Static costing

The static costing is derived by applying the pre- and post-measure rate of tax to the tax base.

**Static Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +105 | +195 | +195 | +200 | +200 |

## Post-behavioural costing

An adjustment was made to account for possible behavioural responses. In line with the standard methodology for anti-avoidance costings, an adjustment is also made to reflect evidence of attrition in the yield from previous anti-avoidance measures.

**Post-behavioural Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +60 | +125 | +120 | +115 | +110 |

## Areas of uncertainty

The main uncertainties in the costing related to the size of the tax base and the behavioural effect.

# Partnerships: alternative investment funds

## Measure description

At Budget 2013 a review of partnerships taxation was announced. The main changes included: (i) employees of Limited Liability Partnerships (LLPs) could no longer be treated, for tax purposes, as if they are members of the partnership; and (ii) stopping partnerships with a corporate member allocating profits, expenses and losses artificially to minimise tax liabilities.

This measure confirms the extension of the original announcement to include the alternative investment fund management sector (typically hedge fund firms). It will prevent individuals from routing personal income through company profits as a way to avoid the higher rates of income tax. This extension was not accounted for in the Budget 2013 costing.

## The tax base

The tax base is estimated by combining data from Companies House, Financial Account Made Easy (FAME), HMRC and the Office for National Statistics. Information specific to the hedge and equity fund sector was gathered from the Financial Conduct Authority. The estimated tax base for 2011 was grown in line with the expected growth rate in hedge and equity fund income.

## Costing

The costing is estimated by applying the difference of the post-measures and pre-measures tax rules to the tax base. In line with the standard methodology for anti-avoidance costings, an adjustment is also made to reflect evidence of attrition in the yield from previous anti-avoidance measures.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +680 | +430 | +410 | +400 |

## Areas of uncertainty

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

# Dual contracts and non-domiciles

## Measure description

This measure will prevent non-domiciled resident taxpayers from using dual contract arrangements to artificially assign part of their employment income to an overseas employment contract to avoid tax liabilities in the UK.

## The tax base

The tax base is the amount of taxable income diverted from the UK through use of these dual contract arrangements and is estimated using HMRC Self Assessment returns and information from HMRC enforcement activity.

## Static costing

The static costing is calculated by applying the income tax rate to the tax base described above.

**Static Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +90 | +70 | +70 | +75 |

## Post-behavioural costing

In line with the standard methodology for anti-avoidance costings, a behavioural adjustment is made to reflect evidence of attrition in the yield from previous anti-avoidance measures.

**Post-behavioural Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +85 | +60 | +60 | +65 |

## Areas of uncertainty

The main uncertainty in the costing is the extent of any behavioural response.

# Double tax relief: loan relationship avoidance

## Measure description

The measure reinforces the UK's double tax relief (DTR) policy that relief for foreign tax should only be given where income has been doubly taxed, once in the UK and once in the foreign territory. This measure closes an avoidance arrangement where loan relationship rules and double taxation relief rules are used to minimise UK corporate tax liability.

## The tax base

The tax base has been derived using data from HMRC enquiries and compliance activity and covers the companies currently using the above avoidance arrangement.

## Costing

The static costing is derived by applying the pre- and post-measure rules to the tax base. In line with the standard methodology for anti-avoidance costings, a behavioural adjustment is made to reflect evidence of attrition in the yield from previous anti-avoidance measures.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | +10 | +20 | +5 | 0 | 0 | 0 |

# Automatic exchange of information agreements with Overseas Territories

## Measure description

From September 2016, as a result of new inter-governmental agreements the UK will receive enhanced information on UK resident taxpayers holding accounts and assets in Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Montserrat and the Turks and Caicos Islands. This data will be used to generate compliance cases and interventions to reclaim unpaid tax liabilities.

## The tax base

The tax base is derived by making an estimate of the undeclared funds held in the above Overseas Territories.

## Costing

The costing is the tax base multiplied by the tax rate. Adjustments are made to account for individuals moving funds to other jurisdictions and to reflect evidence of attrition in the yield from previous anti-avoidance measures.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | neg. | neg. | neg. | +25 | +10 | +5 |

## Areas of uncertainty

The main area of uncertainty in the costing is the estimate of the tax base.

# Capital gains tax: changes to private residence relief final period exemption

## Measure description

The final period exemption currently allows individuals disposing of residential property to benefit from capital gains tax relief for the last 3 years of ownership of a property that was a main private residence at some point, even if the owner no longer lives there. This measure reduces the length of the final period exemption from 3 years to 18 months. Certain protected groups will be exempt from the change.

## The tax base

The tax base is gains made on disposals of residential properties where the owner currently qualifies for the final period exemption, apportioned to between 18 months and 3 years prior to sale. The tax base is increased in line with forecast house prices and house transaction volumes.

## Static costing

The static costing is the tax base multiplied by the estimated average capital gains tax rate on property for those affected by the change.

**Static Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +140 | +165 | +175 | +190 |

## Post-behavioural costing

The costing is adjusted for a range of behavioural effects, including changes in transaction volumes of affected properties and allowing for the use of schemes to avoid capital gains tax.

**Post-behavioural Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +65 | +90 | +100 | +105 |

## Areas of uncertainty

The main uncertainties in the costing relate to the tax base and the behavioural adjustments.

# Capital gains tax: charges on future gains made on disposals of residential property owned by non residents

## Measure description

This measure charges capital gains tax on gains made from 2015-16 on the disposal of UK residential property by non-UK residents.

## The tax base

The tax base is the future gains made on disposals of UK residential property owned by non-resident individuals and disposals of enveloped UK residential property under £2 million owned by non residents. This is estimated based on the stock value of UK residential properties owned by non residents and the value of the disposals of these properties in future years. The tax base is increased in line with forecast changes in house prices and transaction volumes.

## Static costing

The static costing is the tax base multiplied by the tax rate.

**Static Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | 0 | +45 | +115 | +185 |

## Post-behavioural costing

The costing is reduced to reflect changes in disposals of affected properties following the implementation of the measure. The size of the reduction reflects that non-UK residents may already be liable for tax on capital gains in their own countries. An adjustment is made for some compliance loss and for a small amount of forestalling between announcement and implementation.

**Post-behavioural Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | 0 | +15 | +40 | +70 |

## Areas of uncertainty

The main uncertainties are around estimating UK residential property stock owned by non residents and the build up of future gains on the disposal of UK residential properties by non residents.

# Alcohol fraud: wholesaler registration

## Measure description

This measure introduces a new registration scheme for alcohol wholesalers including tighter controls on the distribution chain making it more difficult to penetrate legitimate supply chains with illicit product. This is due to be operational in 2017-18.

## The tax base

The alcohol tax gap is around 7% of duty receipts. The tax base for this measure is estimated using the total alcohol duty tax gap estimates, data from VAT registrations and knowledge gained from HMRC's enforcement and compliance activity. This is projected forward in line with the OBR's alcohol duty receipts forecast.

## Costing

The costing is the tax evaded by wholesalers involved in illicit activity that is prevented by the introduction and policing of the registration system. It is estimated using the tax base described above. The costing is adjusted to account for a range of possible behavioural responses where some illicit trade still manages to evade the registration system, reflecting evidence of attrition in the yield from previous anti-avoidance measures.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | -5 | +15 | +230 | +215 |

## Areas of uncertainty

The main uncertainties in this costing relate to the behavioural impacts and the rate of attrition.

# Tax credits: improving collection and administration

## Measure description

Error and fraud in the tax credits system is at an all time low of 7.3% of entitlement for 2011-12. This measure provides additional capacity to HMRC to bring this figure down further by:

- contracting the private sector to provide additional compliance capacity, the programme is due to be introduced in April 2014 and run for 3 years
- outsourcing recovery of tax credits debt to a private sector provider, for a trial period of 24 months

## The tax base

The cost base for the additional compliance capacity is the forecast value of error and fraud (and overpayments) in the tax credits system in the absence of this measure.

The cost base for increasing outsourcing of tax credits debt is the recoverable outstanding tax credits debt which is in scope for this measure. The cost bases are estimated using HMRC administrative data.

## Costing

The costing for the additional compliance capacity is estimated using operational performance data. Adjustments are made to take into account interactions with other measures seeking to obtain payments against tax credit debts.

The costing for increasing outsourcing of tax credit debt is calculated by applying the pre- and post-measure average collection rates to the cost base described above. Assumed debt recovery rates for Debt Collection Agencies have been guided by the results of previous HMRC programmes and the results of an external study. An adjustment is made to account for those debts that would have been recovered in the absence of intervention.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact[3] | 0 | +400 | +695 | +485 | +95 | +5 |

## Areas of uncertainty

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

[3] Exchequer impact only shows AME and tax impacts. DEL impacts are not included in this document.

# Tax credits: annual entitlement

## Measure description

This measure will prevent the build up of tax credit debt by ceasing payments in-year where, due to a change in circumstances, a claimant has already received their annual entitlement.

## The cost base

The cost base for this measure is the population of tax credits claimants who, when a change of circumstances is reported, receive a reduced award when they have already received their annual entitlement. This is estimated using HMRC administrative data.

## Costing

The costing is estimated by modelling the reduced overpayments from applying the measure to the cost base described above. A small behavioural adjustment is made to account for people who may claim hardship, and for people who delay reporting of changes.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +65 | +55 | +10 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the modelling of the number of people experiencing changes in income or other circumstances in year and the extent to which this will be altered by other HMRC compliance activity.

# HMRC debt collection

## Measure description

This measure increases HMRC's capacity to collect debt with:

- additional fixed term appointment staff to collect debts returned uncollected from Debt Collection Agencies. HMRC has wider powers of collection than Debt Collection Agencies.
- further additional fixed term appointment staff for the period 2014-15 and 2015-16

## The cost base

The cost base for the additional fixed term appointment staff is those debts returned uncollected from Debt Collection Agencies. The cost base for the additional fixed term appointment staff for the period 2014-15 and 2015-16 is the total workable debts being worked by Debt Management and Banking branch of HMRC.

## Costing

The static costing is the cost base described above multiplied by an estimated collection rate. The collection rate has been estimated based on the collection rate of similar debts with comparable age, recent activity and size. An adjustment is made for debts that would have been cleared under business as usual arrangements.

### Exchequer impact (£m)

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact[4] | 0 | +75 | +30 | 0 | 0 | 0 |

## Areas of uncertainty

The main areas of uncertainty in this costing are the value of the debt that will be return from the Debt Collection Agencies and the estimated collection rate.

[4] Exchequer impact only shows AME and tax impacts. DEL impacts are not included in this document.

# HMRC: extending online services

## Measure description

This measure improves HMRC's online capability by:

- providing a single point of submission for organisations to apply online to register with the Charity Commission for England & Wales and apply to HMRC for recognition as a charity for tax purposes. This single point of submission will enable better verification of applications for charitable reliefs.
- providing online capability for all customers and agents handling Inheritance tax (IHT) affairs. This measure will enable HMRC to more effectively link an individual's tax record with the account of their estate upon death.

## The cost base

The cost base for extending online services for charities is the tax currently lost due to improper use of charitable status in order to apply for tax reliefs and is estimated using data from HMRC's operational experience.

The cost base for extending online services for IHT is the tax owed to HMRC, plus income tax and VAT debts owed to HMRC by the estates of deceased people.

## Costing

The costing for extending online services for charities is estimated by adjusting the tax base described above to account for an improvement in HMRC's ability to identify and prevent abuse of charitable reliefs for tax avoidance purposes.

The costing for extending online services for IHT has been estimated using HMRC's administrative data for the IHT regime and for income tax and VAT liabilities owed by the estates of people who have died.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +15 | +50 | +45 | +50 |

## Areas of uncertainty

The main uncertainties in this costing relates to the estimates of the cost bases.

# DWP fraud and error: Real Time Information data matching

## Measure description

The Real Time Information (RTI) system administered by HMRC captures information in real time on the payments made by employers and pension providers to individuals. This measure will match this information to information reported by claimants of DWP benefits to allow the department to identify benefit overpayments due to an incorrect level of income being reported on the benefit claim. This measure will be introduced in 2014-15.

## The cost base

The cost base is the stock of DWP fraud and error which is expected to be captured by the RTI system. This is estimated using data from:

- National Statistics for fraud and error (F&E) 2011-12 (DWP) which includes a breakdown of amount of overpaid Housing Benefit by cause of overpayment
- Single Housing Benefit Extract (SHBE) which includes detailed information on all changes of circumstances processed and all overpayments detected by local authorities
- DWP debt management data which includes case-level management information on debt owed by customers with a detected overpayment on DWP benefits

## Costing

The costing is estimated by establishing the weekly value of benefit overpayments that the RTI scan will detect and multiplying this by the average duration that these overpayments would be expected to continue for in the future. An adjustment is made to allow for the migration to Universal Credit. Overpayments which would have been detected and recovered in the baseline are subtracted from the final costing.

### Exchequer impact (£m)

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +130 | +20 | +15 | -25 | 0 |

## Areas of uncertainty

The main uncertainty relates to estimates of cases will actually be examined and corrected as a result of the initial RTI data scan.

# DWP fraud and error: life certificates

## Measure description

Life certificates are used to ensure that pension claims for overseas pensioners are still valid. Currently it is estimated that around 14% of potentially eligible cases are issued a life certificate. This measure increases this to 100% over a two year period.

## The cost base

The cost base is the overpayments of pension which would be stopped by the life certificates policy. This is estimated using data from:

- International Pension Centre Life Certificate Management Information
- DWP debt management data
- DWP Tabulation Tool
- ONS Interim Life Tables, England & Wales

## Costing

The costing is estimated by multiplying the weekly value of overpayments expected to be prevented by the measure by the average duration of these overpayments.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +20 | +25 | +15 | +10 | +10 |

## Areas of uncertainty

The main uncertainty in the costing relates to the amount of overpayments expected to be prevented by the measure.

# Local authority borrowing for housing

## Measure description

Housing stock-owning local authorities operate within a housing revenue account (HRA) which places a nominal cash cap on their borrowing.

This measure increases the cash cap by a total of £300 million. There will be a competitive process for stock holding authorities to "bid" for part of the total £300 million increase, to fund new affordable rent housing.

## The cost base

In the April 2012 self financing reform, the 167 stock-holding local authorities had their housing borrowing capped. The caps were set at the level of housing debt the local authority was assumed to hold in the previous HRA subsidy system, plus the additional debt the LAs took on under the reform. Baseline estimates of HRA income and expenditure are taken from the OBR's Autumn Statement 2013 forecast.

## Costing

The costing is calculated by assuming that:

- the full additional headroom of £150 million in 2015-16 and £150 million in 2016-17 is taken up and is spent on new affordable housing in these years
- due to a lag between asset sales and new affordable house-building, there is a loss of rental income from the sale of high value vacant stock in early years, but that there is additional rental income, as a result of a net increase in affordable housing in the later years
- new affordable housing is let at affordable rent levels

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | -155 | -165 | 0 | +10 |

## Areas of uncertainty

The costing assumes that the full £300 million of additional headroom is taken up. The government will allocate this on the basis of value for money. It is expected that the best bids will include partnership working with housing associations or through joint ventures, a contribution of local authority land for new housing and use of receipts from sales of vacant high value stock. However, depending on the outcome of the bidding round, bids may not need to contain all of these elements to always be successful.

# Tax support for cleaner fuels for heavy goods vehicles

## Measure description

Currently road fuel natural gases are taxed at a lower rate than petrol and diesel in recognition of their lower Greenhouse Gas emissions. There are considerable upfront costs to convert a heavy goods vehicle (HGV) from diesel to run on road fuel gases. This measure announces 10 year certainty over the fuel duty differential and is expected to encourage HGV fleet operators to purchase converted HGVs.

## The tax base

The tax base for this policy is the number of litres of road fuel natural gas that will be used instead of diesel as a result of this policy. On average HGVs currently use around 40,000 litres of fuel per year. Estimates of the tax base over the costing period are based on information from industry stakeholders, the Department for Transport and the OBR's Autumn Statement 2013 fuel duty forecast.

## Costing

Following certainty around the fuel duty differential, it is expected that the take-up of new HGV conversions will increase. The behavioural impact is assumed to increase over time as fleet operators have time to adjust and the technology and re-fuelling infrastructure improves, and is expected to increase further beyond the forecast period.

The total number of litres affected by this measure is calculated as the number of additional converted HGVs, multiplied by the litres of road fuel natural gas expected to be used instead of diesel per HGV. The costing is calculated by multiplying the total number of litres affected by the tax differential.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | -5 | -10 | -20 | -40 |

## Areas of uncertainty

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

# Alcohol price floor

## Measure description

This measure introduces a price floor for the sale of alcohol in England and Wales. Alcohol products must not be sold at a retail price below the tax that is due on the product, which is the relevant alcohol duty plus value added tax. The measure takes effect no later than the spring of 2014.

## The tax base

The tax base for this measure is total receipts from alcohol released for sale in the UK (clearances). This was £10.2 billion in 2012-13 and is forecast to grow to £12.9 billion in 2018-19. This measure will only affect products currently priced below the floor, which is estimated at around 2% of alcohol sold, based on market data on retail prices. Forecast annual clearances are estimated from OBR's alcohol duty receipts forecast.

## Costing

The costing arises due to a change in behaviour as a result of a reduction in alcohol consumption due to an increase in price. This is estimated using price elasticities.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -5 | -5 | -5 | -5 |

## Areas of uncertainty

The main uncertainties in this costing relate to the exact size of the affected tax base and the behavioural response.

# Office for Tax Simplification: employee share schemes

## Measure description

This measure is a package of simplifications to the rules governing non-tax advantaged employee share schemes, giving effect to some of the changes recommended by the Office for Tax Simplification (OTS). Two of these simplifications have Exchequer impacts:

- new taxation arrangements for Employment Related Securities (ERS) and ERS options awarded to internationally mobile employees. These mean that the tax basis for these share options is determined by the extent to which the employee undertook duties in the UK during the period in which the share based reward accrued.
- simplifications in the valuation of listed company shares for tax purposes. These mean that the value of listed shares for tax purposes will be taken as the closing price on day of trading.

## The tax base

The tax base for the new ERS arrangements is the ERS awards/gains from unapproved schemes associated with inbound and outbound mobile workers.

The tax base for the simplification in valuation of listed company shares is the difference in the valuation price for affected shares multiplied by the number of shares.

## Static costing

The static Exchequer impact is calculated by applying the pre- and post-measure tax regimes to the tax bases described above. A small behavioural adjustment is made to allow for changes in compliance.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +5 | +5 | +5 | +20 | +20 |

## Areas of uncertainty

The main area of uncertainty is estimating the size of the tax base.

# Local authority capital receipts flexibility for service reforms

## Measure description

This measure will give local authorities more flexibility to spend their capital receipts from new asset sales on the one-off costs of reforming their services. The flexibility will be capped at £200 million in total across 2015-16 and 2016-17, and will be available to local authorities via a bid process.

## The cost base

The cost base is taken from OBR's Autumn Statement 2013 forecast of local authority self-financed expenditure.

## Costing

This costing assumes that local authorities will take up the full £200 million flexibility, that they will sell additional assets as a result of the flexibility, and that the receipts from these additional sales will offset 90% of the additional revenue spending. It also assumes that some of the additional asset sales will take place in 2014-15, ahead of the spending in 2015-16 and 2016-17.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +10 | -20 | -10 | 0 | 0 |

## Areas of uncertainty

The main uncertainties are around whether local authorities will take up the flexibility, and the quantity of additional asset sales which will be made as a result of the flexibility.

# Corporation tax: new pad allowance for shale gas

## Measure description

This measure will incentivise the early development of the shale gas industry and other onshore oil and gas projects. It will introduce a new onshore allowance to reduce the amount of ring fence profits subject to the Supplementary Charge. The measure will be effective from 5 December 2013.

## The tax base

The tax base for this measure is onshore production of oil and gas that qualifies for the allowance.

## Costing

The costing derives from additional first year capital allowance claims as a result of development expenditure that was incentivised by the measure. Beyond the forecast period, additional production and profits which would arise from successful onshore developments would be expected to increase Exchequer yield.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | neg. | -5 | -20 | -20 |

## Areas of uncertainty

The main uncertainty in this costing relates to the size of the incentive effect.

# Climate Change Agreement for Data Centres

## Measure description

This measure provides a Climate Change Agreement (CCA) to the standalone data centre (SDC) sector. As a result, the SDC sector will be eligible for lower rates of Climate Change Levy (CCL) and an exemption from Carbon Reduction Commitment (CRC) energy efficiency charges.

## The tax base

The tax base for the CCL component of the measure is consumption of specified energy products for use as fuels in the SDC sector. SDC liability to CCL has been estimated using firm-level information on size and energy consumption reported in a survey of the SDC sector conducted for the Department of Energy and Climate Change (DECC).

The tax base for the CRC component of the measure is carbon dioxide emissions from eligible firms in the SDC sector. CRC chargeable energy consumption is also estimated from firm-level data, and then transformed into carbon emissions using appropriate conversion factors. Both tax bases are grown in line with growth rates derived from electricity demand projections in DECC's most recent Updated Energy and Emissions Projections.

## Costing

The static costing is calculated by applying appropriate tax rates to the tax bases described above. The post-behavioural costing is made assuming that the SDC sector will reduce its energy usage in future in line with the terms of a standard CCA. An adjustment is made to account for delay between accrual of liability and payment of receipts.

### Exchequer impact (£m)

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -15 | -15 | -15 | -15 |

## Areas of uncertainty

The main uncertainty relates to the estimate of the tax base.

# Vehicle Excise Duty: payment by direct debit

## Measure description

This policy introduces a Direct Debit scheme that will allow motorists to choose to pay Vehicle Excise Duty (VED) either annually, bi-annually or over 12 monthly instalments through Direct Debits. There will be a 5% surcharge for those who pay by direct debit bi-annually or monthly. The current system also includes a 10% surcharge for those who pay VED bi-annually.

## Costing

Vehicles eligible for this measure are derived from data on the stock of vehicles from the Department for Transport (DfT) and the Driver and Vehicle Licensing Agency (DVLA). Estimated net annual increases in the number of vehicles are used to forecast future stock levels; this is in line with the VED revenue forecast model and DfT assumptions.

The costing is calculated by estimating the cost of current six-monthly payers paying a lower Direct Debit surcharge and the additional revenue from monthly payers paying the Direct Debit surcharge. The take-up estimates of direct debit are based on information from similar schemes. The Exchequer impact is the sum of both elements. A small behavioural adjustment is made relating to evasion.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -15 | -15 | -20 | -20 |

## Areas of uncertainty

The main areas of uncertainty in the costing are the assumptions around the take-up of direct debit.

# Supporting Work: seven waiting days for Jobseeker's Allowance claimants

## Measure description

This measure introduces a seven day waiting period for new claims to contributory and income-related Jobseeker's Allowance (JSA). This measure will be introduced in 2014-15.

## The cost base

The cost base is estimated based on new awards projections for JSA consistent with the OBR Autumn Statement 2013 forecasts.

## Costing

This costing has been calculated by estimating the number of new awards for JSA based on the OBR Autumn Statement 2013 forecasts. For each award 4 days reduction in benefit expenditure is assumed. An adjustment has been made to account for those claims for which the waiting period does not apply and to account for migration to Universal Credit.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact (AME) | 0 | +25 | +45 | +15 | +10 | +10 |

# Winter Fuel Payments: overseas eligibility

## Measure description

Since 2002, Winter Fuel Payments (WFPs) have been exportable to eligible people living in the EEA and Switzerland. A WFP would be made as long as someone had first qualified for a WFP in the UK and then moved to the EEA. Following a CJEU judgment in the case of Stewart in 2011, eligibility for WFPs was extended to anyone living in the EEA who has a genuine and sufficient link with the UK.

This measure will restrict the number of WFPs exported to people living in the EEA from winter 2015-16. This will mean that WFPs will only be paid to eligible people if they live in a country that has an average winter temperature comparable with or lower than that of South West England.

## The cost base

The cost base for this measure is WFP caseload and expenditure forecasts, which include an estimate of the number of additional claims received as a result of the Stewart case. These are estimated using DWP administrative data.

## Costing

The costing is calculated by estimating the proportion of the cost base above who will no longer be eligible for WFPs. This is estimated using DWP administrative data.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +20 | +25 | +25 | +25 |

## Areas of uncertainty

The main uncertainty in the costing relates to the exact impact of the Stewart judgment on the cost base.

# Annual Verification of Jobseekers Allowance and Universal Credit claims

## Measure description

This measure will require new claimants of Jobseeker's Allowance (JSA (income based)) and Universal Credit (UC) claimants who are subject to conditionality to verify their claim for benefit annually. This will add to the requirement on claimants to ensure the details of their claim are up to date. This measure will be introduced from April 2015.

## The cost base

The cost base is the total amount of overpayments due to claimant error that exists for JSA cases which reach a one year anniversary. It is estimated using DWP's Integrated Forecasting Model and DWP Fraud and Error national statistics from 2011-12. It is estimated that in 2011-12 the total value of overpayments for these cases totalled around £4.9 million.

## Costing

The costing is estimated by combining the cost base described above with average error per case, giving an estimate of the final profile of savings in each year. An adjustment was made to account for migration onto Universal Credit, which will reduce the total level of overpayment.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +5 | +5 | +10 | +10 |

## Areas of uncertainty

The main uncertainty in the costing relates to the size of the reduction in overpayments in Universal Credit.

# Amendment to corporation tax losses: anti-avoidance

## Measure description

This measure is a minor clarification to the definition of the commencement date for the Corporation tax losses measure announced at Budget 2013.

## The tax base

The tax base is formed from the transactions that are now excluded from the scope of the original policy measure.

## Costing

The costing is given by applying the corporation tax rate to the tax base.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | -30 | -10 | 0 | 0 | 0 | 0 |

# Pension credit passthrough

## Measure description

The measure increases the Standard Minimum Guarantee (SMG) in Pension Credit (PC) in April 2014 by 2.0%, meaning a £2.95 increase for single pensioners on the full Guarantee Credit. This is a larger increase than the 1.2% earnings linked increase that is legislatively required, ensuring that recipients of the Guarantee Credit (GC) also see the benefit from the cash increase in the state pension due to the triple lock uprating.

The measure also increases the Savings Credit Threshold by 4.4% to ensure the net effect of Pension Credit uprating is broadly cost neutral.

## The cost base

The cost base is estimated using DWP forecasts of Pension Credit and Housing Benefit caseloads and expenditure and the Office for National Statistics (ONS) estimates of average weekly earnings index. The cost base is grown in line with the relevant OBR forecast determinants.

The baseline assumes the legislative minimum uprating of Pension Credit.

## Costing

The costing is calculated by applying the pre- and post-measure Pension Credit and Savings Credit rates to the cost base.

**Exchequer impact (£m)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | 0 | 0 | +5 | +5 |

## Areas of uncertainty

Possible changes in PC take-up have not been modelled and are considered negligible. The behaviour of claimants or potential claimants is not expected to change significantly, due to the relatively small magnitude of the benefit changes resulting from the measure.

Office for
**Budget**
**Responsibility**

# Certification of policy costings

# A Office for Budget Responsibility: certification of policy costings

## Office for Budget Responsibility: certification of policy costings

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

A.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, free school meals and rail fares growing by RPI in 2014. This also applies to any DEL changes associated with measures which affect current receipts or AME spending – changes to DELs in such cases are also wholly determined by government policy decisions.

A.3 We publish a supplementary fiscal table on our website that sets out how each of the measures shown on the Treasury's Autumn Statement policy decisions table contributes to the different components in our forecast. This provides additional transparency on how the policy measures are reflected in our forecast.

### Methodology

A.4 All costings have been produced on the basis of the OBR's economic forecast published in the December 2013 *Economic and fiscal outlook (EFO)*.

A.5 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 Autumn Statement are set out from paragraph A.9.

### Scrutiny and challenge process

A.6 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

A.7 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. In addition, it is often difficult to draw lessons from the impact of previous policy measures, because it is hard to separate the impact of the measures themselves from other changes in receipts and expenditure.

A.8 In respect of the specific policy costings at this Autumn Statement, the OBR identified the following areas of particular uncertainty:

- Alcohol fraud – wholesaler registration: There are three areas of particular uncertainty with this policy. Firstly, the policy will not be fully operational until 2017-18, so much of relevance could change in the intervening period. Secondly, the amount of alcohol tax avoidance due to wholesalers is very hard to estimate. Thirdly, as with all anti-avoidance costings, the change in individual taxpayer behaviour is difficult to predict.
- CGT – amending final exemption period for private residences: The aim of this measure is to reduce abuse of the final period exemption by reducing the time period from 3 years to 18 months. The extra uncertainty arises from HMRC not having a centralised record of the amount this relief currently costs the Exchequer, nor the number of transactions that use it. As with anti-avoidance costings, it is difficult to estimate individual behaviour in response to policy changes.
- Fuel Duty – support for cleaner fuels: The cost for this measure is entirely determined by the behavioural response of HGV operators to the increased certainty on the tax treatment of alternative fuels. There is significant uncertainty about the strength of that behavioural response and the availability of the infrastructure that would facilitate it.
- Corporation tax – new pad allowance for shale gas: as with "Fuel Duty – support for cleaner fuels" the cost for this measure is entirely determined by the behavioural response of oil and gas companies to the allowance. There is significant uncertainty over how many Shale Gas pads will be directly incentivised over the forecast period by this policy. There are a number of external factors that could slow the response.
- Information Sharing Agreements with Overseas Territories: The estimated revenue raised by these measures is uncertain as there is little hard information about the value and nature of UK individuals' financial assets in these Overseas Territories. There is further uncertainty in the costing around how individuals affected will respond to the policy. Experience with the UK-Swiss tax agreement has illustrated the uncertainties involved in such costings.

## Indirect effects on the economy forecast

A.9 The measures in the Autumn Statement are, in aggregate, not expected to alter the OBR economic forecast. Further details are provided in Chapter 3 of the *EFO*.

A.10 The inflation forecast has, however, been adjusted to reflect the decision to cancel the September 2014 fuel duty increase. This measure is estimated to reduce annual CPI inflation by around 0.1 percentage points at the end of 2014 and in the first half of 2015 relative to the continuation of pre-announced change.

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

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ISBN 978-1-909790-45-2