



HM Government

# Budget 2014: policy costings

March 2014

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Correction made to page 25, paragraph 4

Change:

“The tax base for this measure is all passengers currently subject to APD and travelling to destinations more than 4000 miles from London, or aboard luxury jets subject to the higher rate. In 2012-13, there were 97.5 million chargeable APD passengers, of which around 90 million were flying to destinations more than 4000 miles from London and would thus be affected by the change in rate.”

To:

“The tax base for this measure is all passengers currently subject to APD and travelling to destinations more than 4000 miles from London, or aboard luxury jets subject to the higher rate. In 2012-13, there were 97.5 million chargeable APD passengers, of which around 9 million were flying to destinations more than 4000 miles from London and would thus be affected by the change in rate.”

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# 1

## Introduction

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**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 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.<sup>1</sup> This publication is part of the government's wider commitment to increased transparency.

**1.2** Alongside this document the OBR are publishing a briefing paper ("*Briefing paper No.6: Policy costings and our forecast*") which provides further detail of the agreed methodology between the OBR and the government for estimating the direct costs of policy changes. All costings in this document are consistent with this methodology and have been scrutinised and certified by the OBR.

**1.3** Chapter 2 presents detailed information on the key data and assumptions underpinning the costing of policies in Budget 2014. 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.

**1.4** 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).

**1.5** 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.

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<sup>1</sup> 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

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The following policy decisions are included in this chapter:

- Savings tax: abolish the 10% rate and extend the 0% band to £5,000
- Individual Savings Accounts: equalise stocks and shares and cash limits and increase to £15,000
- Individual Savings Accounts: including Peer to Peer lending
- Individual Savings Accounts: including retail bonds
- Pensions: reduce withdrawal tax rate from 55% to the marginal income tax rate
- Personal allowance increase and transferrable tax allowance increase
- Annual Investment Allowance: double to £500,000 until December 2015
- Research and development tax credits: increase payable element for small and medium sized enterprises
- Carbon Price Floor reform: limit disparity between UK and EU to £18 per tonne of carbon dioxide
- Combined Heat and Power: relief for onsite generation
- Climate Change Levy: metallurgical and mineralogical exemption
- Seed Enterprise Investment Scheme and Capital Gains Tax reinvestment relief: make permanent
- Venture Capital Trusts: return of capital
- Venture capital reliefs: preventing tax relief on companies already receiving specific DECC subsidies
- Social Investment Tax Relief
- Theatre productions: tax relief
- Air Passenger Duty: abolish bands C and D
- Alcohol duty
- Tobacco duty: continue 2% escalator from 2015-16
- Bingo Duty: reducing rate to 10%
- Machine games duty: increasing the rate on B2 machines to 25%
- Motoring tax: changes to Vehicle Excise Duty and capital allowances
- Capital allowances: energy and water efficient technologies

- Aggregates Levy: freeze in 2014-15
- Landfill Tax and Landfill Communities Fund: update and reform
- Office for Tax Simplification: employee share schemes
- Cultural Gifts Scheme: extension
- Accelerated payments: extension to disclosed tax avoidance schemes and the General Anti-Abuse Rule
- Avoidance schemes using the transfer of corporate profits
- Direct recovery of debts
- Oil and gas: changes to offshore chartering
- Company car tax: continuing to increase by 2 percentage points in 2017-18 and 2018-19
- Annual Tax on Enveloped Dwellings: new bands between £500,000 and £2 million
- Tax credits debt: increasing recovery rate
- National Savings and Investments bonds for people aged 65 or over
- Voluntary National Insurance contributions
- Public Service Pensions: revaluation
- Right to Buy
- European Economic Area migrant benefits: restricting claims and increasing compliance checks
- Business rates for Enterprise Zones
- Support for mortgage interest: 12 month extension
- Seven waiting days for Employment and Support Allowance claimants
- Increase in the Carer's Allowance Earnings Limit
- Business rates relief for flooded properties
- Tax-Free Childcare

# Savings tax: abolish the 10% rate and extend the 0% band to £5,000

## Measure description

This measure reduces the starting rate of savings tax from 10% to 0% and increases the threshold for this rate from £2,880 in 2014-15 to £5,000 of savings income above the personal allowance. This measure will take effect from 2015-16.

## The tax base

The tax base for the static costing is the savings income of those individuals currently claiming the reduced rate. The tax base for the post-behavioural costing also includes those individuals who will be brought into the 0% band by the increase in threshold.

These are estimated using data from the Survey of Personal Incomes increased in line with OBR’s forecast determinants, including those for interest rates.

## Static costing

The static costing is the tax base above multiplied by the change in the rate.

### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	0	-225	-200	-215

## Post-behavioural costing

The post-behavioural costing is calculated by estimating the take-up of those individuals who will be brought into the 0% band by the increase in threshold.

Currently not all eligible individuals claim the 10% rate. The costing is adjusted for additional claims as individuals will have a greater financial incentive to claim the 0% rate.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	-135	-320	-325	-355

## Areas of uncertainty

The main uncertainties in this costing are the adjustment for the increase in claims and the forecasts of future returns to savings.

## Individual Savings Accounts: equalise stocks and shares and cash limits and increase to £15,000

### Measure description

This measure increases the annual cash savings limit and total savings limit on Individual Saving Accounts (ISAs) to a new limit of £15,000 and allows transfers between stocks and shares and cash accounts, effective from 1 July 2014.

The annual cash savings limit was previously announced at Autumn Statement 2013 to be £5,940 for 2014-15, with the total limit at £11,880.

### The tax base

The tax base for this measure is the return on savings which would be transferred to ISAs under new higher limits by savers currently investing the full baseline ISA subscription limits. This is estimated by matching HMRC ISA account information to data from the Survey of Personal Incomes. It is estimated that around 6.4 million individuals will invest the full baseline ISA subscription limits in 2014-15.

### Static costing

The static costing for this measure is nil as individuals would have to opt to place their additional investment within an ISA to benefit.

#### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	0	0	0	0

### Post-behavioural costing

The costing is calculated by estimating the value of investments that individuals will move from taxable savings into ISAs. This is estimated using current ISA subscription data and data from the Wealth and Assets survey on available taxable savings. The costing assumes returns on these savings based on OBR forecast determinants.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-5	-80	-230	-395	-565

### Areas of uncertainty

The main uncertainties in this costing relate to the growth of the tax base and the estimation of behaviour.

# Individual Savings Accounts: including Peer to Peer lending

## Measure description

This measure allows funds lent via Peer to Peer schemes that are subject to regulatory oversight to be included within the stocks and shares component of Individual Savings Accounts (ISAs).

## The tax base

The tax base is the returns on savings lent through Peer to Peer schemes. It is estimated using industry data including a bespoke survey of the major Peer to Peer providers, distributed amongst their investors/borrowers. The tax base is grown in line with industry estimates, limited to 20% per year from 2015-16.

## Costing

The costing is calculated by estimating the value of Peer to Peer lending that individuals opt to place within an ISA, and the tax which would have been collected on the returns received. The costing takes account of the fact that lenders may already have existing ISA savings.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	neg.	-10	-15	-30

## Areas of uncertainty

The main uncertainties in this costing relate to the growth of the tax base and the estimation of behaviour.

# Individual Savings Accounts: including retail bonds

## Measure description

This measure reduces the tenor rule for the period left until maturity on retail bonds that are eligible to be placed into an ISA from 5 years to 1 year.

## The tax base

The tax base for this measure is interest on retail bonds which become eligible to be held in stocks and shares ISAs as a result of this measure. The tax base includes taxable savings of those who currently save at the cash ISA limit, but do not want to invest in a stocks and shares ISA due to the higher risk. By reducing the time limit these retail bonds may become alternatives to other taxable savings and investment products.

## Costing

The costing is the tax forgone on the returns to taxable savings and investments which would have been held outside of ISAs. The amount of money moved into retail bonds held in ISAs is estimated based on the size of the retail bond market, the space investors are likely to have in their ISA allowance and the willingness of individuals who have a preference for cash savings to switch into retail bonds.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	neg.	neg.	neg.	-5	-5

## Areas of uncertainty

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

# Pensions: reduce withdrawal tax rate from 55% to the marginal income tax rate

## Measure description

This measure removes the minimum income requirement for flexible drawdown. This allows individuals with defined contribution private pension wealth to undertake an early withdrawal from their pension pots if they wish, subject to taxation at their marginal rate when their pension is crystallised, rather than the current 55% charge that would be applied if they made a full withdrawal.

As a transitional measure, from 27 March 2014 the minimum income requirement for entering flexible drawdown will be reduced to £12,000, the capped drawdown ratio will be increased to 150% of an equivalent annuity, the small pots limit will be increased to £10,000 with the maximum number of small pots that can be taken increasing from two to three and the trivial commutation limit will be increased to £30,000.

## The tax base

The tax base for this measure is comprised of all defined contribution pensions that are crystallised in any single year, the expected future pension income from those pensions and income used to increase pension contributions. The total pension wealth crystallised each year is estimated using data from the Wealth and Assets Survey and Association of British Insurers (ABI) data on drawdown arrangements and annuity purchases.

## Static costing

The static yield from this measure is zero as this does not restrict the options currently available for individuals crystallising pensions.

### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	0	0	0	0

## Post-behavioural costing

The costing depends upon an estimate of the number of people who make use of the additional flexibility. This leads to an increase in income tax received in early years as individuals will now pay tax on the withdrawals from their pension pot. Because more people make withdrawals there will then be reduced income tax on annuity pension payments in later years.

The proportion of pension pot holders who choose to make early withdrawals is forecast by estimating whether an individual would have a preference for present income over later income. This preference is estimated using information on individuals' current financial positions using data from the Wealth and Assets Survey. It is affected by their indebtedness and the returns available on investments outside the implied returns of annuities. Other factors which may influence take-up include individuals' preference for liquidity and their tendency to stick to default options, which affect take-up in opposite directions. It is estimated that around 30% of people in defined contribution schemes will decide to drawdown their pension at a faster rate than via an annuity.

Over the first 4 years of the scorecard period it is also assumed that there are additional withdrawals from the stock of pensioners currently within capped drawdown. This further



increases income tax received over this period. Adjustments are also made for the higher costs of pensions tax relief to reflect the increased attractiveness of pension savings for some individuals.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-5	+320	+600	+910	+1,220

By allowing individuals to flexibly withdraw from their pension pot, this measure results in increased income tax receipts in each year until 2030. After that, a small reduction in tax receipts of around £300 million a year is expected in steady state. This is small in comparison to the impact of all the government changes on pensions, designed to ensure pensions provision is sustainable with an aging population (notably the increase in State Pension age), which means by 2030 the government is saving around £17 billion a year in 2013-14 terms compared to previous policy.

**Areas of uncertainty**

The main uncertainty in this costing is the number of individuals who will withdraw additional wealth when their pension pot is crystallised.

# Personal allowance increase and transferrable tax allowance increase

## Measure description

This measure increases the personal allowance to £10,500 in 2015-16. The transferrable tax allowance for married couples and civil partners will increase to £1,050 and is set at 10% of the personal allowance.

## The tax base

The tax base for the personal allowance increase is estimated using data on taxable incomes taken from the Survey of Personal Incomes (SPI), comprising a sample around 679,000 tax records, weighted to be representative of all taxpayers. The latest available data is for the tax year 2011-12.

The tax base for the transferrable tax allowance increase is the additional £50 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 and administrative data on the number of married couples and civil partners.

The income tax base, including taxpayer numbers and incomes, is grown over the forecast period in line with the 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, and taking the difference.

Adjustments have been made for the effects of this measure on DWP benefits and tax incentives to incorporate.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Personal allowance	0	-1,410	-1,770	-1,875	-1,895
Transferrable tax allowance	0	-25	-30	-35	-40

## Areas of uncertainty

The main uncertainties in this costing relate to the projection of SPI survey data from 2011-12, which in particular affects the number of baseline taxpayers who will benefit from the measure.

## Annual Investment Allowance: double to £500,000 until December 2015

### Measure description

This measure increases the Annual Investment Allowance (AIA) to £500,000 from April 2014 to December 2015.

The AIA was previously increased from £25,000 to £250,000 for the two years from 1 January 2013.

### The tax base

The tax base is the qualifying expenditure made by business in excess of the pre-measure AIA and up to the new AIA. This is estimated using data from tax returns for accounting periods ending in the 2011-12 tax year. The tax base is projected forwards using the OBR's forecast for total business investment.

### Costing

The costing is estimated by applying the new AIA level to the tax base described above. It is assumed that the extra expenditure estimated to now qualify for the AIA as a result of extending the temporary increase would otherwise have qualified for standard main or special rate capital allowances at 18% or 8% per year on a reducing balance basis. The relevant main and small profits rates of corporation tax will apply to incorporated businesses, and an average combined marginal income tax and National Insurance rate of 29% is assumed for unincorporated businesses.

An adjustment is made for that fact that not all businesses will be able to make use of the AIA in all years.

The AIA does not change the total amount of relief available on qualifying expenditure, which would otherwise have qualified for standard main or special rate capital allowances. There is therefore an increase in tax receipts from 2017-18 onwards, meaning the measure is broadly revenue neutral overall.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-85	-665	-1,270	+175	+270

### Areas of uncertainty

The main uncertainties in this costing are the OBR's forecast for total business investment and estimates of eligible investment from unincorporated businesses.

# Research and development tax credits: increase payable element for small and medium sized enterprises

## Measure description

Loss-making small and medium size enterprises (SMEs) can convert any losses attributable to Research and Development (R&D) into a payable cash credit, which is currently paid at a rate of 11% of the SME enhanced expenditure rate (225%). This measure increases the payable cash credit rate to 14.5% of the enhancement rate. This measure will come into effect from April 2014.

## The tax base

The tax base is the amount of qualifying R&D expenditure made by SMEs. This was estimated using published national statistics on the amount of R&D expenditure used by SMEs to claim a payable credit. Latest figures show that the cost to the Exchequer was around £220 million for the payable credit of the SME scheme, with around 790 claims.

Future R&D expenditure is grown based on historic growth in R&D expenditure and OBR determinants.

## 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)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-5	-35	-80	-85	-90

## Post-behavioural costing

It is assumed that the higher rate of relief would stimulate additional R&D expenditure. An evaluation of R&D tax credits by HMRC in 2010 concluded that every £1 of additional tax relief results in a £1 increase in R&D expenditure, and this is used to estimate the behavioural effect of the costing.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-5	-50	-120	-125	-130

## Areas of uncertainty

The main uncertainties in this costing are the forecast of R&D expenditure under the current scheme, and the impact of any changes on that expenditure.

# Carbon Price Floor reform: limit disparity between UK and EU to £18 per tonne of carbon dioxide

## Measure description

The Carbon Price Floor (CPF) sets a minimum price per tonne of carbon dioxide (tCO<sub>2</sub>) emitted through combustion of fossil fuels to produce electricity. The CPF is implemented by charging a Carbon Price Support (CPS) rate to UK electricity producers. The CPS rate per tCO<sub>2</sub> is set equal to the difference between the CPF and the European price per tCO<sub>2</sub>, that is, the price of an EU Emissions Trading System (EU ETS) permit.

This measure caps the CPS rate differential per tCO<sub>2</sub> at £18 (nominal terms) from 2016-17 to 2019-20. The CPF trajectory remains unchanged: wherever this leads to a CPS rate of more than £18/tCO<sub>2</sub>, the CPS rate is capped at £18/tCO<sub>2</sub>. CPS rates for individual commodities are derived from the rate per tCO<sub>2</sub>.

## The tax base

The tax base for this measure is CO<sub>2</sub> emissions from fossil fuels burned to produce electricity. The tax base is estimated by the Department of Energy & Climate Change (DECC) Dynamic Dispatch Model (DDM) of the electricity market, using OBR determinants for GDP, inflation, exchange rates, and oil and gas prices. The DDM forecasts supply, demand and investment decisions in the electricity market from 2010 through to 2050.<sup>1</sup>

## Static costing

The CPS rate per tCO<sub>2</sub> for each future year is calculated as the difference between the CPF trajectory and forecast EU ETS permit prices. The CPS rate was expected to rise from roughly £23/tCO<sub>2</sub> in 2016-17 to roughly £35/tCO<sub>2</sub> in 2019-20 under the current CPF trajectory. Under the £18 cap, the CPS rate is set to £18/tCO<sub>2</sub> in all years from 2016-17 to 2019-20.

The static costing is estimated by calculating the difference between the revenue forecast under the current CPF trajectory, and the revenue forecast when CPS rates are capped at £18/tCO<sub>2</sub> from 2016-17 to 2019-20.

### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	0	-450	-755	-1015

## Post-behavioural costing

The behavioural adjustment is estimated by the DECC DDM. Capping the CPS rate makes electricity cheaper, which increases total electricity generation by 3-4% as compared to the baseline. Capping the CPS rate also changes the optimal mix of fuels used to generate electricity.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	0	-340	-615	-870

<sup>1</sup> Details are available on the DECC webpage on gov.uk.

## **Areas of uncertainty**

The main uncertainties in this costing relate to the future prices of oil, gas, coal and EU ETS permits.

## Combined Heat and Power: relief for onsite generation

### Measure description

This measure exempts Combined Heat and Power (CHP) plants from paying Carbon Price Support (CPS) commodity rates on fuel burned to produce good quality electricity for onsite usage from 2015-16.

### The tax base

The tax base for this measure is CO<sub>2</sub> emissions from fossil fuels burned in CHPs to produce electricity which is certified by DECC as being of "good quality". The tax base is forecast by the DECC model of the UK CHP sector, which estimates the total cost-effective potential for CHP across industry and service sectors, accounting for the behavioural effects of price uncertainty. This uses inputs based on OBR determinants for GDP, inflation, £/€ exchange rates, and oil and gas prices.

### Static costing

The CPS rate per tonne of carbon dioxide (tCO<sub>2</sub>) in each future year is calculated as the difference between the CPF and forecast EU ETS permit prices, taking into account the decision made at Budget 2014 to cap the CPS rate per tCO<sub>2</sub> at £18 from 2016-17 to 2019-20. The average proportion of fuel used to produce power for onsite usage in CHPs is estimated at 65%, using DECC Digest of UK Energy Statistics data. The static costing is estimated by calculating the difference between the baseline revenue forecast, and the revenue forecast when 65% of baseline CHP fuel use is exempted from CPS commodity rates.

#### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	-65	-70	-75	-80

### Post-behavioural costing

The behavioural adjustment is estimated by the DECC CHP model, assuming the CPS rate is capped at £18/tCO<sub>2</sub> from 2016-17 to 2019-20. This measure decreases the cost of operating a good quality CHP, encouraging new investment in CHPs. Total CHP electricity generation is estimated to be 7% higher in 2020 compared to baseline as a result of this exemption. This measure also encourages good quality CHPs to use more of their power output onsite, though many are limited in their technical ability to do so. An additional behavioural adjustment of roughly 1.5% of the tax base is made to account for this effect.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	-65	-70	-75	-80

### Areas of uncertainty

The main uncertainties in this costing relate to the future prices of oil, gas, electricity, and EU ETS permits.

# Climate Change Levy: metallurgical and mineralogical exemption

## Measure description

This measure exempts the energy used in both metallurgical and mineralogical processes from paying Climate Change Levy (CCL) from 1 April 2014. Some firms undertaking these processes will also be exempted from Carbon Reduction Commitment (CRC) charges as a result of related changes being made to that regime to the same timescale.

## The tax base

The tax base for the CCL component of the measure is consumption of energy products for use as fuels in metallurgical and mineralogical processes. This has been estimated from energy consumption data submitted by relevant industrial sectors in order to claim a Climate Change Agreement (CCA), supplemented with a small number of estimates from secondary data.

The tax base for the CRC component of the measure is carbon dioxide emissions from metallurgical and mineralogical processes by firms that do not participate in the CCA. This has been estimated by identifying relevant carbon dioxide emissions at a sectoral level from the 2010-11 CRC Annual Report. Firms which hold a CCA are already exempted from CRC, and their emissions are not part of the tax base.

## Costing

The CCL portion of the costing is made by calculating the proportions of electricity, gas and solid fuel use which will be exempted and multiplying these by the OBR's forecast of CCL revenues. Behavioural effects such as changes in investment and production patterns are assumed to have a negligible effect on the costing. The CRC portion of the costing is made by growing the tax base in line with CRC projected emissions trends, and multiplying by relevant tax rates.

## Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-20	-25	-25	-25	-25

## Areas of uncertainty

The main uncertainty in this costing is the closeness of match between CCA sectors and exempted metallurgical and mineralogical processes.



# Seed Enterprise Investment Scheme and Capital Gains Tax reinvestment relief: make permanent

## Measure description

The Seed Enterprise Investment Scheme (SEIS) was introduced in April 2012. The scheme gives a 50% relief against income tax.

Relief on Capital Gains Tax (CGT) is also currently available on capital gains realised in 2012-13 (100% relief given) and 2013-14 (50% relief given), provided they are reinvested in the year of asset disposal, or the following year, in SEIS qualifying investments.

This measure makes both the scheme and the 50% CGT reinvestment relief permanent.

## The tax base

This measure applies to investments made in companies qualifying under SEIS. This is estimated by taking annual SEIS investment totals and projecting them forward in line with the OBR forecast.

## Costing

The costing is estimated by applying the rate of tax relief to the forecast investment totals and adjusting for a number of expected behavioural impacts.

For extending the SEIS these include: removing the need for investors to bring forward investment had the extension not taken place; the fact that additional SEIS investment will be attracted by the extension of the 50% rate of relief; and some displacement of investment from the EIS to the SEIS in order to secure the higher rate of tax relief.

For extending the CGT relief these include: additional investment that will be attracted by the measure and the fact that gains can be re-invested a year after disposal.

### Exchequer impact (£m)

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

## Areas of uncertainty

The main of uncertainty in the costing is the forecast of SEIS investments driven by the different tax reliefs on offer, given that this is a relatively new scheme.

# Venture Capital Trusts: return of capital

## Measure description

This measure introduces a new rule preventing Venture Capital Trusts (VCTs) from returning capital that does not relate to profits on investments within a 3 year period of raising new capital, with effect from 6 April 2014. Use of such arrangements can enable VCTs to return capital that has already benefited from tax relief to the investor without it being invested into any SMEs.

## The tax base

The tax base is the total amount of funds raised by VCTs which take advantage of the current rules. This is calculated by estimating the amount of investment in “limited life” VCTs which typically have a stated investment strategy that incentivises the return of capital to investors very soon after funds are raised.

## Costing

The measure involves no rule changes affecting the rate of relief for investors. The changes affect the way VCTs raise and distribute their funds and their ability to guarantee dividends to investors. The costing is therefore the reduction in investment in “limited life” VCTs that may result from the introduction of the policy. An adjustment is made to account for some of these funds being invested in other longer-term VCTs.

### Exchequer impact (£m)

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

## Areas of uncertainty

The main uncertainties in this costing relate to the levels of investment going into “limited life” VCTs and the behavioural response of investors to the measure.

# Venture capital reliefs: preventing tax relief on companies already receiving specific DECC subsidies

## Measure description

This measure will prevent companies from benefitting from investment via EIS, SEIS or the VCT scheme when they are also benefitting from DECC Renewable Obligations Certificates (ROCs) or Renewable Heat Incentive (RHI) subsidies, with effect from Royal Assent to Finance Bill 2014.

## The tax base

The tax base is the annual amount invested under Venture Capital schemes into renewable companies receiving ROCs or RHI subsidies. It is estimated using industry data on investment in renewables companies, as well as HMRC administrative data.

## Static costing

The static costing is calculated by multiplying the tax base described above by the proportion of investment on which tax relief is currently claimed and the rate of the relief.

### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	+45	+90	+80	+75

## Post-behavioural costing

The static costing is adjusted to account for the assumption that a proportion of the investment currently invested into low-risk companies also receiving ROCs or RHI subsidies under the SEIS, EIS and VCT schemes would be reinvested into other companies benefitting from the schemes.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	+30	+60	+50	+40

## Areas of uncertainty

The main uncertainties in this costing relate to the proportion of SEIS, EIS and VCT investments into low-risk companies also receiving ROCs or RHI subsidies and growth in the tax base.

# Social Investment Tax Relief

## Measure description

The measure introduces a new tax relief to incentivise direct private investment in social enterprises, including Social Impact Bonds, from April 2014. The measure gives an Income Tax relief of 30% and Capital Gains Tax relief provided the investment is held for a period of three or more years. Each eligible organisation will be able to receive investment of up to €344,827 over three years.

## The tax base

The tax base is estimated using existing data on social investment via financial intermediaries. The tax base is increased in line with OBR forecasts.

## Static costing

The static costing is the eligible investment multiplied by the relief rate, with an adjustment for the proportion of the relief that can be claimed.

### Static Exchequer impact (£m)

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

## Post-behavioural costing

Adjustments are made for a delay in take up and the new relief stimulating additional investment. The latter was calculated by adapting research estimating on social investment due to tax incentives.<sup>2</sup>

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	-10	-20	-25	-35

## Areas of uncertainty

The main uncertainties in this costing relate to the current levels of investment into social enterprises and the behavioural response to the new relief.

<sup>2</sup> "The role of tax incentives in encouraging social investment," prepared for the City of London and Big Society Capital by Worthstone assisted by Wragge & Co LLP, March 2013'

## Theatre productions: tax relief

### Measure description

This measure provides relief for expenditure on theatre production, following a similar approach to the current film tax relief. The relief will be available to eligible companies from 1 September 2014 at a rate of 25% for touring productions and 20% for other productions.

### The tax base

The tax base is the amount of qualifying expenditure on theatre productions. The tax base was estimated using industry data for 2012, projected forwards.

### Costing

The costing is calculated by applying the appropriate relief rates to the tax base described above. A behavioural adjustment is made to account for additional expenditure and additional productions incentivised by the measure.

#### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-5	-15	-20	-20	-20

### Areas of uncertainty

The main area of uncertainties in the costing relate to the size of the tax base and the size of the behavioural impact.

## Air Passenger Duty: abolish bands C and D

### Measure description

This measure simplifies Air Passenger Duty (APD) from a 4 band to a 2 band system by abolishing bands C and D from 1 April 2015. Band A will remain unchanged, covering passengers on flights originating in the UK with a final destination 2000 miles or less from London. The new band B will cover all passengers with a final destination of more than 2000 miles from London. The new band B will be charged at the existing planned band B rate in 2015-16 (£71 for reduced rate passengers and £142 for standard rate passengers).

The measure also increases the higher rate of APD, applicable only to luxury business jets, to 6 times the reduced rate, from 1 April 2015.

### The tax base

APD is due on chargeable passengers being carried from a UK airport on chargeable aircraft. The rate charged depends upon the final destination of the passenger. There are currently four destination bands based on the distance between London and the capital city of the destination country/territory.

The tax base for this measure is all passengers currently subject to APD and travelling to destinations more than 4000 miles from London, or aboard luxury jets subject to the higher rate. In 2012-13, there were 97.5 million chargeable APD passengers, of which around 9 million were flying to destinations more than 4000 miles from London and would thus be affected by the change in rate.

### Static costing

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

#### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	-230	-240	-250	-265

### Post-behavioural costing

Behavioural adjustments are made to take into account the increase in demand for long haul flights following this change. A price elasticity of -0.6 is applied to passenger numbers travelling to the current band C and D in the lowest class of travel on the flight (usually economy class) who are therefore subject to the reduced rate. A price elasticity of -0.1 is applied to those travelling in a higher class of travel and thus being subject to the standard rate. This behavioural effect increases the number of passengers travelling to these long haul destinations and thus slightly offsets the static cost.

#### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	-215	-225	-230	-250

### Areas of uncertainty

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

## Alcohol duty

### Measure description

This measure makes the following duty rate changes from 19 March 2014:

- reduce the duty rate on standard strength beer by 2%, reduce the duty rate on low strength beer by 6% and reduce the total duty rate on high strength beer by 0.75%, rather than the previously announced RPI rises for all beer duty rates
- freeze duty rates on spirits and most cider, rather than the previously announced increase of 2% above RPI
- end the duty escalator for wine and high strength sparkling cider so that the duty rates increase by RPI, rather than the previously announced increase of 2% above RPI

### The tax base

The tax base for this measure is the total receipts from all alcohol released for sale in the UK (clearances). This is estimated to be £10.4 billion in 2013-14, of which the three main parts are beer (£3.3 billion), wine (£3.7 billion) and spirits (£3.0 billion). Forecast annual clearances are estimated from OBR's alcohol duty receipts forecast.

### Static costing

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

#### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-370	-380	-400	-420	-440

### Post-behavioural costing

A behavioural adjustment is made to take into account changes in consumption in response to a price reduction, and these are estimated using price elasticities. The elasticities used are new estimates extending and improving the methodology in HMRC's previous published research. An HMRC working paper including the relevant elasticities and methodology will be published in 2014.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-290	-295	-305	-315	-325

### Areas of uncertainty

The main uncertainty in this costing relates to the extent of the behavioural effect.

## Tobacco duty: continue 2% escalator from 2015-16

### Measure description

Tobacco duty rates are pre-announced to increase by RPI+2% each year until 2014-15 and assumed to be revalorised with RPI thereafter.

This measure continues the increases in specific duty on tobacco products by 2% above RPI for each year from 2015-16 to 2019-20. The ad valorem rate for cigarettes remains unchanged.

### The tax base

The tax base comprises total receipts from all tobacco released for sale in the UK (clearances); this is estimated at £9.7 billion in 2013-14, of which cigarettes account for £8.4 billion. Forecast annual clearances are estimated from the tobacco duty receipts forecast. The forecast takes into account previously announced duty changes, and trends such as reductions in smoking and switching to lower priced products.

### Static costing

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

#### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	+180	+375	+575	+795

### Post-behavioural costing

Since duties make up large proportions of tobacco prices, changes to duty rates can lead to significant changes in prices. Consumers are expected to respond to price increases by reducing their consumption of duty-paid tobacco and by switching to lower priced products. Both of these have a negative impact on Exchequer yield. For cigarettes, the behavioural response is captured by a long-run price elasticity of -1.05 and a short-run elasticity of -0.57 (applied to the first three months). For hand-rolling tobacco, an elasticity of -1.17 is used throughout.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	+40	+75	+110	+135

### Areas of uncertainty

The main uncertainty in this costing relates to the extent of the behavioural effect.



## Bingo Duty: reducing rate to 10%

### Measure description

This measure will reduce Bingo Duty from 20% to 10% from 30 June 2014.

### The tax base

The tax base is the gross profits (participation fees plus stakes minus prizes) from UK bingo promoters. The tax base is forecast by the OBR to be broadly flat (around £320 million) over the scorecard period, in line with the expected trend in receipts.

### Costing

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

#### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-30	-40	-40	-40	-40

Two expected behavioural responses were taken into account in the costing. First, the proportion of the tax cut which is passed on to consumers via lower prices for bingo will increase the demand for bingo (own-price elasticity). Second, the relative price of bingo compared with other types of gambling will be lower, causing substitution away from other forms of gambling towards bingo, which will reduce receipts from other gambling taxes (cross-price elasticity). Because the elasticities are small, the combined effect of these behavioural responses is small.

### Areas of uncertainty

The main area of uncertainty in this costing is the size of the behavioural response to the measure.

## Machine games duty: increasing the rate on B2 machines to 25%

### Measure description

Machine games duty (MGD) is a tax on gross profits (stakes minus prizes) from gaming machines. There are seven different categories of machines (A, B1, B2, B3, B4, C and D), which are defined in terms of maximum stakes and prizes available. Category B2 machines are those which offer a maximum prize of £500 and allow a maximum stake of £100.

This measure increases the rate of machine games duty on Category B2 gaming machines from 20% to 25%. This category of machine is found almost exclusively in licensed betting offices. The measure is effective from 1 March 2015.

### The tax base

The tax base is estimated from the total number of B2 gaming machines (33,000 in 2012-13) and their gross profits (£46,600 per machine on average in 2012-13), using data from the Gambling Commission. The tax base is estimated to be around £1.6bn in 2012-13 and then grown in line with OBR's Budget 2014 nominal GDP 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)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	+5	+90	+95	+95	+100

### Post-behavioural costing

The main behavioural response to this measure comes from operators switching to machines with a lower duty rate. There will be little scope to pass tax changes on to consumers, which means that the change in the tax rate will affect the net profit levels of machines; in response, a small proportion of operators will switch from B2 machines to other classifications of machine. Machines with a lower proportion of B2-exclusive content are more likely to switch to being B3 machines.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	+5	+75	+80	+85	+90

### Areas of uncertainty

The main uncertainties in the costing relate to the size of the tax base and also the extent of the behavioural effect.

# Motoring tax: changes to Vehicle Excise Duty and capital allowances

## Measure description

Budget 2014 announces the following three motoring measures:

- extending the exemption on Vehicle Excise Duty (VED) to all vehicles manufactured over 40 years ago on an ongoing annual basis, so that the cut-off date automatically rolls forward each year. This would start in 2014-15, when vehicles manufactured before 1 January 1974 would become exempt
- freezing, from 2014-15, the reduced VED rate that applies to vans that had met the Euro 4 and 5 emissions standards before they became mandatory for all vans
- extending the Enhanced Capital Allowances (ECAs) regime for expenditure on new and unused zero-emission goods vehicles, including electric vans, from 31 March 2015 to 31 March 2018 for corporation tax and from 5 April 2015 to 5 April 2018 for income tax. To comply with EU state aid rules the availability of the ECA will be limited to businesses that do not claim the Department for Transport's (DfT) Plug-in Van Grant

## The tax base

The tax base for the VED exemption for vehicles manufactured over 40 years ago is every mechanically propelled vehicle which uses or is kept on the road which was manufactured before the cut-off date for the exemption.

The tax base for VED rates for vans that meet Euro 4 and 5 emission standards is every light goods vehicles weighing no more than 3500kg which is either:

- registered between 1 March 2003 and 31 December 2006 and Euro 4 compliant; or
- registered between 1 January 2009 and 31 December 2010 and Euro 5 compliant

In 2012-13 around 135,000 vans claimed the Euro 4 and 5 discounts. A downwards adjustment is made to the tax base each year to account for scrappage.

The tax base for the ECA regime is the expenditure on zero-emission goods vehicles that would qualify for ECAs. This was derived by using the DfT forecast for sales of electric vans and the estimated average cost of a typical electric van. The costing assumes that 25% of these purchases are by businesses that choose to take the ECA rather than the DfT's Plug-in Van Grant.

## Costing

The costing is calculated by applying the appropriate tax regime to the tax bases described above.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	neg.	neg.	-5	-10	-15

## Areas of uncertainty

The main areas of uncertainty in these costings relate to the rate of VED applicable to vehicles that are around 40 years old, the scrappage rate for Euro 4 and 5 vans and take-up of ECAs for expenditure on new and unused zero-emission goods vehicles.

# Capital allowances: energy and water efficient technologies

## Measure description

This measure updates the list of technologies and products covered by the first year allowance scheme for energy-saving and environmentally beneficial technologies.

## The tax base

The tax base is the total change in qualifying expenditure for all of the affected technologies and products, and is estimated using information from the Department for Energy and Climate Change and the Department for the Environment, Food and Rural Affairs. For 2014-15 this was estimated to be around £40 million, rising to over £220 million by 2018-19.

## Costing

The costing is calculated by applying the pre- and post-measure tax regimes to the tax base described above. Adjustments are made to take into account take-up rates based on previous research and tax returns. An allowance is also made for the proportion of capital allowances that will be tax effective, based on information from tax returns.

### Exchequer impact (£m)

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

## Areas of uncertainty

The main uncertainties in this costing relate to take-up rates and the estimates of the tax base.

## Aggregates Levy: freeze in 2014-15

### Measure description

This measure freezes the aggregates levy at £2 per tonne for 2014-15 rather than increase the rate by inflation to £2.05 per tonne.

### The tax base

The tax base is the tonnage of aggregates extracted by the quarrying of rock, sand and gravel used in construction. The tax base is estimated from OBR forecasts of aggregates output. This forecast is dependent upon the lagged duty rate, seasonal variation and a time trend. For 2014-15 the tax base is estimated to be 140m tonnes.

### Costing

The costing is calculated by applying the pre- and post-measure tax regimes to the tax base described above. Any behavioural change resulting from this policy is assumed to be negligible.

#### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-5	-5	-5	-5	-5

### Areas of uncertainty

The main uncertainty in this costing is the forecast of the tax base.

# Landfill Tax and Landfill Communities Fund: uprate and reform

## Measure description

This measure announces the following changes to the landfill tax:

- standard and lower rates of landfill tax will increase by Retail Index Prices in 2015-2016 and each year thereafter
- the value of landfill communities fund (LCF) will reduce by £7.85 million in 2014-15 to £71 million

## The tax base

The uprating of the landfill tax will only impact on lower rate, which is currently forecast to remain constant. The tax base for the costing is therefore all lower rated tonnage sent to landfill. The tax base was estimated using the OBR’s landfill tax forecasting model.

## Costing

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

The costing for the reduction in value of the LCF is the increased landfill tax resulting from reducing the maximum value of the fund.

### Exchequer impact (£m)

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

## Areas of uncertainty

The uncertainties in this costing relate to the size of the tax base in future years and the uptake of the LCF, as landfill tax operators tend to under utilise their tax allowance deduction.

## Office for Tax Simplification: employee share schemes

### Measure description

Autumn Statement 2013 announced 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 of Tax Simplification (OTS). These included new taxation arrangements for Employment Related Securities (ERS) and ERS options awarded to internationally mobile employees. This measure announces that in addition to new ERS and ERS options, the changes will apply to awards that are current at 6 April 2015 – including awards made before that date. It also delays implementation for the new arrangements until 6 April 2015.

### 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.

### Costing

The Exchequer impact is calculated by applying the pre- and post-measure tax regimes to the tax bases described above. This results in increased yield as the new rules now apply to all awards that are current at 6 April 2015, including those awarded before the implementation date. A small behavioural adjustment is made to allow for changes in compliance.

#### Exchequer impact (£m)

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

### Areas of uncertainty

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

# Cultural Gifts Scheme: extension

## Measure description

The purpose of the Cultural Gifts Scheme is to stimulate lifetime giving by encouraging taxpayers to donate pre-eminent objects, or collections of objects, to the nation. In return, donors receive a reduction in their UK tax liability based on a percentage of the value of the object they are donating.

The scheme took effect for tax reductions in the tax year starting April 2012. The total amount of tax liabilities that can be deducted is currently subject to a cap of £30 million. This cap is shared between the Cultural Gifts Scheme and the Acceptance in Lieu scheme that covers Inheritance Tax. This measure proposes to increase this cap to £40 million from 2014-15.

## The tax base

The tax base would comprise total liabilities for income tax, Corporation Tax and Capital Gains Tax (as well as the Inheritance Tax that is covered by Acceptance in Lieu), as constrained by a cap of £40 million.

## Costing

The costing is the proposed increase in the tax liabilities that can be deducted, from £30 million to £40 million each tax year from 2014-15. HMRC administrative data on the Cultural Gifts Scheme indicates that the £10 million increase is likely to be used.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-10	-10	-10	-10	-10

## Areas of uncertainty

Given the costing is based on existing administrative data on the current scheme there are no significant areas of uncertainty in this costing.



# Accelerated payments: extension to disclosed tax avoidance schemes and the General Anti-Abuse Rule

## Measure description

At Autumn Statement 2013 the Government announced that users of avoidance schemes that are shown to fail in the courts in another party's litigation, and that do not settle their case in response, will be issued with a notice requiring them to pay the tax in dispute upfront while the legal process on their specific case takes its course.

This measure extends this so that accelerated payment will be sought from all taxpayers involved in avoidance schemes disclosed under the disclosure of tax avoidance scheme (DOTAS) rules and schemes that HMRC counteracts under the General Anti-Abuse Rule (GAAR).

The Autumn Statement 2013 measure and extension announced at Budget have been costed together here. The accelerated payment measure announced at Autumn Statement 2013 is subtracted from the final costing to avoid double counting.

## The tax base

The tax base for these measures is the disputed tax for taxpayers that will be issued with accelerated payment notices. This is estimated using HMRC information on the value of disputed tax and on previous tax settlements.

The total value of tax under dispute by HMRC related to marketed, artificial avoidance cases is around £14 billion, associated with a population of around 65,000 taxpayers. Of this, £2.5 billion concerns avoidance arrangements that fall outside the scope of the Budget and Autumn Statement measures as the schemes are outside the DOTAS rules and relate to taxpayers will not be issued with follower penalty notices.

To arrive at the £7.1bn that is estimated to be the value of accelerated payments notices that will be issued in relation to existing cases the following adjustments are then made:

- for cases where the issuance of a notice is dependent on future court decisions, the costing assumes a HMRC win rate of 80 per cent. This is based on HMRC's win rate in associated avoidance cases between 2010 and 2013
- an adjustment is also made for individuals that already concede their position and settle once their scheme is shown to fail in the courts in another party's litigation
- an adjustment is made to take account of the fact that in a relatively small number of cases some taxpayers will have already paid the amounts in dispute, while continuing to dispute the amounts in question

HMRC will also issue notices in relation to the future flow of cases which would arise from new avoidance, for which the estimated value of tax that would be disputed in the absence of this measure is estimated to be around £700 million per annum.

## Costing

The costing is produced by making adjustments for:

- The responses by taxpayers issued with payment notices. It is estimated that the majority of those issued with notices will pay, either (a) within the allowed 90 day payment period, (b) through managed payment plans (this will be evaluated on a

case-by-case basis and will result in some payments being spread over time), or (c) following payment enforcement action by HMRC.

- Repayments. HMRC will make repayments with interest in cases where upfront payments of tax have been made but where a taxpayer wins a subsequent tribunal or court decision.
- Behavioural responses. A further adjustment is made for those taxpayers who stop using avoidance schemes as a result of this measure, which increases tax yield from this group. 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.
- Tax under dispute which would have been collected in later years but which is now collected upfront. This reduces the costing by around £500 million in each year from 2015-16.
- Amounts scored under the follower notices measure announced in Budget 2013 and the accelerated payment measure announced at Autumn Statement 2013 are subtracted from the final costing to avoid double counting.

#### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	+340	+1,230	+1,300	+715	+385

#### Areas of uncertainty

The main uncertainties in this costing relate to the behavioural responses and the payment profile.

## Avoidance schemes using the transfer of corporate profits

### Measure description

Autumn Statement 2013 announced a measure to block avoidance schemes where deductions are claimed for payments between groups under derivative contracts which are linked to company profits.

This measure blocks alternative avoidance schemes which may be used by the same groups, where groups are able to transfer taxable profits away from a UK company to an overseas company within the same group using back-to-back trading contracts or other arrangements with similar effects. It will be effective from 19 March 2014.

### 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 allows for a behavioural response as companies seek other ways to reduce their UK tax liabilities.

To avoid double counting the Exchequer impact from the Autumn Statement 2013 measure is subtracted from the costing for this measure to arrive at the final Exchequer yield.

#### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	+60	+80	+80	+85	+75

### Areas of uncertainty

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

## Direct recovery of debts

### Measure description

This measure changes legislation to allow HMRC to secure the payment of tax and tax credit debts above £1,000 directly from debtors' bank and building society accounts that are in credit, starting from 2015-16. As a safeguard, a minimum of £5,000 will be left across the debtor's accounts after direct recovery of debts has been applied.

### The tax base

The tax base is the population of tax and tax credits debtors who have funds in bank or building society accounts above £5,000. The tax base is estimated using HMRC administrative data.

### Costing

The costing is based on the amount of attainable debt. This is estimated by matching administrative data on debtors to bank and building society details. An adjustment is made for migration to Universal Credit. Further adjustments are made to account for debts that would have been cleared under business as usual arrangements and for interactions with the accelerated payments measure.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	+65	+120	+100	+90

### Areas of uncertainty

The main uncertainty in the costing relates to the matching of debtors to bank and building society details.

## Oil and gas: changes to offshore chartering

### Measure description

At Autumn Statement 2013 the government announced a cap on 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. This measure increases the cap on deductible expenses from 6.5 per cent to 7.5 per cent and restricts the measure to drilling rigs and offshore accommodation vessels only.

### The tax base

The tax base for this measure is the revenue after deductible expenditure earned by accommodation and drilling contractors whilst deployed on the UKCS. 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 and accommodation vessels.

### Costing

The costing for the measure is the level of expenditure that would no longer qualify as an eligible tax deduction multiplied by the onshore corporation tax rate. Only the change to the original measure is estimated here.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-10	-15	-10	-5	-5

### Areas of uncertainty

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

## Company car tax: continuing to increase by 2 percentage points in 2017-18 and 2018-19

### Measure description

The measure extends the 2 percentage point (ppt) increase in Company Car Tax rates for cars emitting more than 75 grams of carbon dioxide (CO<sub>2</sub>) per kilometre (g/km) to a maximum of 37% to 2017-18 and 2018-19. In 2017-18 there will be a 4 ppt differential for cars emitting CO<sub>2</sub> between the 0-50 and 51-75 g/km bands and between the 51-75 and 76-94 g/km bands. In 2018-19 this differential will reduce to 3 ppt. The differential will reduce further to 2 ppt in 2019-20 in line with the Budget 2013 announcement.

### The tax base

The tax base is estimated using data on taxable benefits in kind reported by employers to HMRC. The value of the car benefit tax base is projected using a range of assumptions, including increases in car prices in line with the OBR's Consumer Price Index (CPI) determinant and projected reductions in CO<sub>2</sub> emissions.

Take-up adjustments were also applied to the tax base. Car benefit take-up is assumed to remain constant, while fuel benefit take-up is estimated to decline, reflecting recent trends.

### Static 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 company cars of differing CO<sub>2</sub> emission levels.

#### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	0	0	+255	+515

### Post-behavioural costing

Exchequer yield is adjusted to take into account additional employees leaving fuel benefit charge in response to measures which increase the cost of the fuel benefit charge.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	0	0	+240	+480

### Areas of uncertainty

The main uncertainties in the costing arise from future changes in the provision of company cars by employers and the behavioural response of individuals in relation to fuel benefit changes.

## Annual Tax on Enveloped Dwellings: new bands between £500,000 and £2 million

### Measure description

This measure will introduce new bands for the Annual Tax on Enveloped Dwellings (ATED) to bring certain enveloped properties worth over £1 million and up to £2 million into the charge with effect from 1 April 2015 and properties worth over £500,000 and up to £1 million into the charge with effect from 1 April 2016.

The government will also extend the 15% Stamp Duty Land Tax (SDLT) rate applied to residential properties purchased by certain non-natural persons to such properties worth over £500,000 with effect from 20 March 2014. The government will extend the related Capital Gains Tax (CGT) charge on disposals of properties liable to ATED to properties worth over £1 million with effect from 6 April 2015 and to properties worth over £500,000 with effect from 6 April 2016.

### The tax base

The tax base is the stock of enveloped residential properties valued between £500,000 and £2 million plus properties within the same band that enter or leave an 'envelope'. On average, the ATED liable properties have been estimated as 1% of the total stock of properties in the £500,000 to £2 million range, estimated by extrapolating from the stock of properties valued over £2 million, for which HMRC has administrative data.

### Static costing

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

#### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	+180	+210	+265	+275	+300

### Post-behavioural costing

There are a number of behavioural effects, including those who choose:

- not to envelope
- to envelope and pay the new charges
- to envelope and use an alternative avoidance route, or
- to remove a property from an envelope

A further adjustment has been made to allow for the impact on price and transaction levels for the affected properties. Overall, after behaviour is taken into account it is expected that around 12,000 additional properties will be liable for the ATED charge.

The behavioural adjustment is estimated to be smaller than assumed at Budget 2012 and Budget 2013, reflecting the higher than expected yield from ATED returns in 2013-14.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	+35	+70	+90	+80	+90

## **Areas of uncertainty**

The main uncertainties in this costing relate to estimates of the stock of properties, the volume of transactions captured by the measure and the behavioural responses.



# Tax Credits debt: increasing recovery rate

## Measure description

Tax credit debt is currently collected by reducing on-going tax credit payments, by either 10% or 25% of the tax credit award value depending on a claimant’s circumstances. This measure will increase the rate of recovery for those earning over £20,000 per year to 50 per cent of the tax credit award value.

## The cost base

The cost base is the recoverable outstanding tax credit debt which is in scope for this measure. It is estimated using HMRC administrative data. An adjustment is made for estimates of new debt accrued each year, modelling the increased debt recovery from applying the measure and the change in the tax credits population as people leave and enter the tax credits system.

## Costing

The costing is estimated by modelling debt recovery under the new recovery rate, and subtracting existing debt recovered. Adjustments have been made to estimate the extent to which people may claim hardship or adjust their working hours, mis-report their income, delay reporting their income or not report their income as they reach the income threshold.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	0	+70	+10	0

## Areas of uncertainty

The main uncertainties in this costing concern the extent of the behavioural adjustments.

## National Savings and Investments bonds for people aged 65 or over

### Measure description

In January 2015 National Savings and Investments (NS&I) will issue a choice of fixed-rate savings bonds for people aged 65 or over, taxed in line with other savings income.

### The cost base

The bonds will be priced to draw £10 billion of inflows. The rates will be set at Autumn Statement, but for the purpose of the costing our central assumption based on current market rates is rates of 2.8% on a one year bond and 4% interest on a three year bond, before tax, each with £10,000 investment limits.

### Costing

Money raised by NS&I is public borrowing and interest paid on NS&I products is debt interest. Usual debt financing decisions are not shown on the scorecard, however this measure is included to recognise that these bonds are a specific policy measure.

The costing is calculated by estimating the increased cost of the NS&I product over usual borrowing decisions, which it is assumed would raise the money through a mixture of Gilts and T-bills. This is the difference between a pre-measure scenario where the government raises £10 billion through the DMO, and a post-measure scenario where £10 billion of is raised through the new NS&I bonds rather than through gilts. Both scenarios have been adjusted for tax receipts and are based on the OBR forecast of borrowing costs at the time of launch.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-35	-170	-65	-50	-5

### Areas of uncertainty

The main areas of uncertainty in this costing are the rates decided at Autumn Statement, the equivalent cost of borrowing through Gilts and T-bills at that point, and the profile of inflows into the products.

## Voluntary National Insurance contributions

### Measure description

This measure, announced at Autumn Statement 2013, will enable pensioners to acquire extra Additional State Pension from October 2015. It applies to those who reach State Pension age before the introduction of Single Tier (April 2016) and will be available for 18 months. The extra pension will have all the benefits and features of Additional State Pension.

### The cost base

The cost base is the population of pensioners who would be eligible to acquire the extra Additional State Pension. This is estimated using administrative data, data from the Family Resources Survey and the Department for Work and Pensions' forecasts on Pension Credit.

### Costing

The costing is calculated by making assumptions on take-up of the extra Additional State Pension and applying these to the estimated price of the Additional Pension. Information from an on-line survey carried out by Ipsos MORI on behalf of the Department for Work and Pensions has been used to inform assumptions on take-up. The survey asked individuals how interested they were in acquiring additional pensions, on a scale from "very interested" to "not interested at all".

Conversion rates are applied to account for the fact that not everyone who says they are interested in acquiring the additional pension will do so in reality. It is assumed that 30% of those who said they are "very interested" will take-up the offer and 15% of those who said that they are "fairly interested" would take-up the offer.

The Government Actuary's Department (GAD) was consulted to provide advice on an actuarially fair price for £1 a week of Additional Pension, which takes account of the latest life expectancy rates. For example it would cost a 65 year old around £890 to gain £1 a week of Additional Pension.<sup>3</sup>

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
AME	0	-20	-55	-70	-70
National Insurance Revenue	0	+435	+435	0	0
Total	0	+415	+380	-70	-70

### Areas of uncertainty

The main uncertainty in the costing relates to the estimates of take-up.

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<sup>3</sup> Subject to Parliamentary approval

# Public Service Pensions: revaluation

## Measure description

Public Service Pension schemes are currently carrying out valuations to determine schemes liabilities as at 1 April 2012 as against the notional value of their assets at that date and the future costs of providing benefits to be accrued up to 31 March 2019. This costing reflects near final valuation results for the Teachers Pension Scheme (E&W), Principal Civil Service Pension Scheme, NHS Pension Scheme (E&W) and Police Pension Scheme (E&W), which will inform employer contribution rates for the schemes. Final results and contribution rates will be published in the months after Budget.

## The cost base

Near final results produced by scheme advisers from the Government Actuary's Department suggest employer contribution rates from 2015-16 will increase by 2.3% in the TPS, 2.2% in the PCSPS, and 0.3% in the NHSPS and decrease by 3.2% in the PPS. This will produce an increase in Public Service Pension scheme income from 2015-16, creating an offsetting net reduction in pensions scheme expenditure.

## Costing

The costing is derived from the net increase in income and reduction in expenditure as compared to the OBR Budget 14 forecast of Public Service Pension schemes expenditure and receipts. The Budget 14 forecast is made on the basis of existing employer contributions. The costing reflects a delay in the introduction of new TPS employer rates until 1 September 2015 (as compared to 1 April 2015 for the other schemes) and the government's decision that it will ensure the net fiscal outcome of employer contribution rates decreasing in the Police Pension scheme will be neutral.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	+725	+985	+1,015	+1,045

## Areas of uncertainty

These costings reflect near final valuation results for the four pension schemes. Final valuation results will be published in the months after Budget once final checking and assurance of the valuation results has been completed. Should the final published rates differ from those used in these costings and this affect the scorecard costing this will be revised at a future fiscal event.

## Right to Buy

### Measure description

This measure reflects the following changes to the Right to Buy regime to increase take-up announced in Autumn Statement 2013 and on 3 January 2014:

- from April 2014 introducing Right to Buy agents to help buyers complete their home purchase

And from May 2014:

- uprating the Right to Buy cash cap in line with CPI each year
- raising the maximum discount for houses from 60% to 70%

### The cost base

The pre-measure base for the costing is the forecast of Right to Buy receipts which is included in the OBR's forecast.

### Costing

The costing is calculated by estimating the increased take-up of Right to Buy, which is estimated by the Department for Communities and Local Government using the Department's Affordability Model, developed at the University of Reading. The increased receipts from increased Right to Buy sales are partly offset by increased Local Authority investment in affordable rent homes.

#### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact (Total)	+10	+20	+25	+10	+10

### Areas of uncertainty

The main uncertainty in the costing relates to the assumption of increased take-up relating to Right to Buy agents.

# European Economic Area migrant benefits: restricting claims and increasing compliance checks

## Measure description

European Economic Area (EEA) migrants must have a right to reside in the United Kingdom in order to access Child Tax Credit (CTC), Child Benefit (CB), Jobseeker's allowance (JSA) and Housing Benefit (HB). These previously-announced measures include:

- For those claiming a right to reside as a worker or self-employed (including on a 'retained' basis) and claiming CTC and CB, a presumption of a minimum earnings threshold set at £153 per week in 2014-15. If the threshold is not met over a three month period, this is followed up by a more in-depth assessment of whether the claimant is engaged in work or self-employment which is 'genuine and effective' and not 'marginal or ancillary'. The costing is on the basis of new claims starting from March 2014.
- EEA jobseekers are required to have been living in the UK (or Common Travel Area) for 3 months before they are entitled to claim JSA (and therefore HB). This measure was introduced on 1 January 2014.
- Also, EEA jobseekers will no longer be able to make new claims to HB at all from 1 April 2014. Those who are entitled to HB and income-based JSA on 31 March 2014 will retain their HB entitlement, until a change in their circumstances means that they lose entitlement to either of those benefits after 1 April.
- EEA jobseekers and 'retained' workers will cease to have a right to reside as a jobseeker and will lose their entitlement to JSA (and, where appropriate, HB) if they remain unemployed for 6 months, unless at that point they are able to provide compelling evidence of a genuine prospect of work. This equally applies to CB and CTC, unless the EEA national can rely on another right to reside.

These restrictions will be augmented by additional HMRC compliance checks to improve detection of when EEA migrants cease to be entitled to these benefits. The checks will apply to all EEA migrant claims.

## The cost base

The cost base for the measures affecting CB and CTC is identified using information from the National Insurance Registration System (NIRS) and HMRC's Child Benefit and Tax Credit database.

The cost base for the measures affecting JSA and HB is estimated using information from the National Insurance Registration System (NIRS), DWP administrative data on JSA and HB claimants and information from DWP decision makers on Habitual Residence Tests.

Future changes in EEA migration flows are projected forward so that they are consistent with the Office for National Statistics' low migration population variant, which underpins the OBR's central forecast. The government has therefore reflected this for the purposes of producing policy costings; the government does not forecast future migration flows.

For the additional compliance checks, non-compliance was estimated using the results of a pilot study, checking for proof of presence in the UK.

## Costing

The static costing for the restriction measures are calculated by multiplying the affected number of cases by the average award. This is adjusted for those who do not meet the earnings threshold but nevertheless pass the more in depth assessment of genuine and effective work and genuine prospect of work. Similarly, the additional compliance checks element is calculated by multiplying the number of cases checked by the reduction in the incidence of non-compliance and the average award that would otherwise have been paid out over time.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	+60	+80	+115	+120	+125

### Areas of uncertainty

The main uncertainties in this costing relate to future levels of migration, the number of claimants who will pass the in depth assessments for genuine and effective work and genuine prospect of work, and the behavioural response of claimants.

# Business rates for Enterprise Zones

## Measure description

This measure will extend the deadline by which businesses need to have located within an Enterprise Zone (EZ) in order to claim Business Rates Discounts by 3 years, from 31 March 2015 until 31 March 2018. Business Rates Discounts in EZs last for the first five years that a business is located in the EZ.

## The tax base

The tax base for this measure is businesses which locate within an EZ between 1 April 2015 until 31 March 2018. The primary data source is the March 2013 OBR forecast of business rates receipts.

## Costing

The costing takes the OBR forecast of the increase in the cost of Business Rates Discounts in EZs between 2012-13 and 2013-14 and adjusts this for an expected reduction in the number of new businesses moving into EZs in 2015-2018 as the available space is taken up.

The costing accounts 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.

## Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	-5	-5	neg.	-5	neg.



# Support for mortgage interest: 12 month extension

## Measure description

Temporary extensions to Support for Mortgage Interest (SMI) were introduced during the recession in order to protect working-age homeowners against repossession. The waiting period before SMI is received was reduced from 39 to 13 weeks and the capital limit, on which interest is paid, was increased from £100,000 to £200,000. These rules were due to expire in March 2015. This measure extends the current rules, for a further 12 months, until 31 March 2016.

## The cost base

The cost base is estimated from historical SMI claims from the Quarterly Statistical Enquiry, historical and forecast new awards, and survival rate data provided by DWP. OBR assumptions on the future average mortgage rate are also used.

## Costing

The costing is calculated using the estimated number of people who could receive additional/higher awards (and the value of these awards) compared to the pre-measure base.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	0	-90	-25	0	0

## Areas of uncertainty

The main uncertainties in this costing relate to assumptions around the overall survival rates for the underlying benefits and the proportion of those with SMI and capital above £100,000.

## Seven waiting days for Employment and Support Allowance claimants

### Measure description

This measure introduces a seven day waiting period for new claims to contributory and income-related Employment and Support Allowance (ESA), as announced at Spending Round 2013. Budget 2014 confirms that this measure will apply from October 2014.

### The cost base

The cost base is estimated based on new awards projections for ESA, consistent with the OBR Budget 2014 forecasts.

### Costing

The costing has been calculated by assuming a 4 days reduction in benefit expenditure for each award in the tax base described above. An adjustment has been made to account for those claims for which the waiting period does not apply; where claims will reach the full time limit on contributory ESA; and to account for migration to Universal Credit.

### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact (AME)	+5	+10	+5	neg.	neg.

### Areas of uncertainty

The main uncertainties in the costing relate to projections of inflows, the number of claimants who will reach the full time limit on contributory ESA (from whom no savings will be made), and recent benefit history.

## Increase in the Carer's Allowance Earnings Limit

### Measure description

One of the entitlement conditions of Carer's Allowance (CA) is that the carer cannot earn over the prescribed earnings limit. This measure raises this limit to £102 a week.

### The cost base

The cost base is estimated using DWP's Policy Simulation Model (PSM), a static microsimulation model which uses data from the Family Resources Survey.

### Static costing

The static costing is based on the estimated number of carers who are earning between old and new limits and are providing care for 35 or more hours per week, a qualifying condition of CA receipt.

#### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	neg.	-5	-5	-5	-5

### Post-behavioural costing

A behavioural adjustment has been made to reflect the judgement that some claimants would, in the absence of a rise in the earnings threshold, take steps to reduce their earnings to below the earnings limit. In addition, not all those who are newly eligible for CA as a result of a rise in the threshold would make a claim.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Exchequer impact	neg.	neg.	-5	-5	-5

### Areas of uncertainty

The main uncertainty in this costing relates to the number of carers affected by the threshold increase.

## Business rates relief for flooded properties

### Measure description

Business rates are a tax on non-domestic property. To respond to flooding earlier in the year, a 100% business rates relief was announced; to be awarded to affected properties for a total of three months.

### The cost base

The cost base for this measure is the number of hereditaments with a rateable value of less than £10 million on the English rating list affected by flooding from 1 December 2013 to 31 March 2014.

### Costing

The costing is calculated by modelling the total loss to central government receipts arising from affected properties based on the average rateable values within affected areas.

#### Exchequer impact (£m)

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

### Areas of uncertainty

The main uncertainties in the costing relate to the number of affected properties and the potential overlap with existing reliefs.

## Tax-Free Childcare

### Measure description

Budget 2013 announced a new Tax-Free Childcare (TFC) scheme, which will increase the availability of childcare support to self-employed parents and to parents whose employer does not offer Employer Supported Childcare (ESC). TFC will provide 20% of working families' childcare costs. The maximum government contribution announced at Budget 2013 was £1,200 per year per child.

From autumn 2015, ESC (childcare vouchers and directly contracted) will be closed to new entrants. Current members may choose to remain in their current scheme or switch to TFC. Following consultation, more details about the design of the scheme have now been confirmed, allowing a more detailed estimation of the costing. This note sets out the methodology for estimating the costs of TFC, as reflected in the OBR's Budget 2014 forecast.

### The cost base

The cost base is those families eligible to claim TFC, including those who currently receive ESC. TFC will ultimately be available to all households with children under the age of 12 where:

- both parents (or a lone parent) are in paid work and expect to earn above the minimum income level (eight hours a week at the national minimum wage, approximately £50 a week)
- neither parent (nor a lone parent) is in receipt of any support through tax credits, Universal Credit, or Employer-Supported Childcare
- neither parent (nor a lone parent) is an additional rate taxpayer, currently set at earnings of £150,000 per year

The cost base is estimated using data from the Family Resources Survey (FRS) 2011-12 and childcare cost assumptions derived from the DfE Early Years Survey of parents (EYS) 2012.

This results in an estimate that TFC will be available to 1.9 million working families. It is estimated that around two thirds of these have qualifying childcare costs.

### Static costing

The static costing is calculated by estimating total TFC support available and subtracting the reduction in tax relief due to the closure of ESC to new entrants.

Where a family is in receipt of ESC and is also eligible for TFC it is assumed they will switch to TFC when it is in their financial interest to do so.

Childcare costs and usage are estimated for different family types in the cost base described above, allowing for differing levels of usage throughout the year and allocating total family cost among individual children. This provides an estimate for the total TFC support available to the family. The cost of managing accounts, which will be paid by the government, is included in the estimated TFC expenditure.

The cost base and childcare costs have been projected using the OBR's forecast of average earnings, and allow for ONS projected increases in child populations.

Government support for ESC is also projected allowing for increases in child populations, but with reduced spending as a result of the closure of ESC (childcare vouchers and directly contracted) to new entrants.

### Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Spend on TFC	0	-255	-745	-805	-850
Reduced spend on ESC	0	+80	+280	+400	+485
Total exchequer impact	0	-175	-465	-410	-365

### Post-behavioural costing

The costing allows for the following behavioural responses to the introduction of TFC:

- an increase in take-up of ESC childcare vouchers and directly contracted childcare before schemes are closed to new entrants
- an increase in demand for childcare

The costing further assumes that some families with high costs who are affected by the maximum limit on government support in a particular year will make higher contributions in earlier years to accumulate value for later use.

Take-up for the scheme is estimated using evidence from take-up of other government schemes with similar characteristics. It is estimated to be 90% in 2015-16, rising to 97% by 2017-18. A small adjustment is made for possible error and fraud.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Spend on TFC	0	-245	-745	-840	-895
Reduced spend on ESC	0	+25	+145	+270	+380
Total exchequer impact	0	-220	-600	-570	-515

### Areas of uncertainty

The main areas of uncertainty are the rates of take-up for TFC, the value of childcare costs over the scorecard period, and the level of behavioural responses.

## Increasing the Tax-Free Childcare cap to £10,000

### Measure description

Budget 2014 announces an increase to the previously announced cap on the childcare costs covered by Tax-Free Childcare (TFC) from £6,000 to £10,000 a year, increasing the maximum government contribution to £2,000 per child.

### The cost base

The cost base for this measure is the additional expenditure on qualifying childcare between the value of the old and new caps.

### Costing

The costing for this measure uses the same methodology which is set out above. The increased cap increases the overall Exchequer Impact of Tax Free Childcare by £75 million by 2018-19.

#### Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Total exchequer impact	0	-25	-60	-75	-75

# A

## Indexation in the public finance forecast baseline

The following table shows the indexation assumptions that have been included in the public finance forecast baseline, including all pre-announcements, for Budget 2014 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 the baseline	Pre-announced policy changes from 2014-15 onwards
Income tax	Personal allowance <sup>1</sup>	Increase by CPI from 2015-16, rounded up to the nearest £10.	Personal allowance for those born after 6 April 1948 increased by £560 in cash terms in 2014-15.
	Basic Rate Limit	CPI, increase rounded up to the nearest £100.	Higher Rate Threshold, which is the sum of the personal allowance and the basic rate limit, to be indexed by 1% in 2014-15 and 2015-16. <sup>2</sup>
	Starting rate limit for savings income	RPI, increase rounded up to the nearest £10 until 2015-16, CPI 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 £40,000.	
	Pensions income tax relief lifetime allowance	Fixed at £1.25 million.	
	Individual Savings Accounts limits for cash and equities	CPI rounded to the nearest £120.	

<sup>1</sup> Age Related Personal Allowances frozen at 2012-13 cash values until aligned with Personal Allowance for those born after 6 April 1948.

<sup>2</sup> Basic rate limit will be adjusted in order for higher rate threshold indexation to be equal to 1 per cent.



Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2014-15 onwards
	Threshold for Child Benefit income tax charge	Fixed at £50,000	
	Marriage tax allowance	Uprated in proportion to the personal allowance.	
NICs	Lower earnings limit	CPI rounded down to the nearest £1pw.	
	Primary Threshold/ Lower Profits Limit	CPI rounded down to the nearest £1pw/£5pa.	
	Secondary Threshold	RPI, increase rounded to the nearest £1pw until 2015-16, CPI 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% in 2014-15 and 2015-16 in line with the Higher Rate Threshold indexation.
	Small Earnings Exception	CPI, rounded up to the nearest £10pa.	
	Contribution rates	Fixed percentage, apart from Class 2 and Class 3 weekly rates which rise by CPI, rounded to the nearest 5p.	
	Employment Allowance	Fixed at £2,000.	
Capital gains tax	Main annual exempt amount	CPI, rounded up to the nearest £100.	Increase by 1% in 2014-15 and 2015-16.
	Annual exempt amount for trustees	Half of the main annual exempt amount	Half of the main annual exempt amount
	Lifetime allowance for entrepreneurs' relief	Fixed at £10 million.	
Inheritance tax	Nil rate band	CPI rounded up to the nearest £1,000.	Freeze on the nil-rate band until 2017-18 (freeze at £325,000).
Disability Benefits: Disability Living Allowance, Attendance Allowance, Carer's Allowance	All main rates	CPI.	

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2014-15 onwards
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.
Basic State Pension	All categories	Higher of earnings, CPI or 2.5%.	
Additional State Pension	All elements	CPI.	
Pension Credit	Guarantee Credit	Earnings.	Standard minimum guarantee increased in April 2014 by 2%.
	Savings Credit	Maximum Savings Credit award frozen in cash terms for 4 years from April 2011. It is then frozen in real terms.	Savings credit threshold increase by 4.4%
Child Tax Credit	Family element	Fixed at £545 per year.	
	Child element	CPI, rounded up to the nearest £5.	Up-rated by 1 per cent for 3 years from 2013-14.
	Disabled and enhanced disabled child elements	CPI, rounded up to the nearest £5.	
Working Tax Credit	All award elements	CPI, rounded up to the nearest £5.	Basic and 30 hour elements up-rated by 1% in 2014-15 and 2015-16. Couple and lone parent elements up-rated by 1% for 3 years from 2013-14.
	Maximum eligible childcare costs (for 1 and 2+ children)	Fixed at £175 and £300 per week.	
Child Benefit	Eldest (or only) child and subsequent children amounts	CPI, rounded to the nearest 5 pence.	Up-rated by 1% in 2014-15 and 2015-16.

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2014-15 onwards
Corporation tax	Marginal relief lower limit	Fixed at £300,000.	
	Marginal relief upper limit	Fixed at £1.5 million profit.	
	Small profits rate	Fixed at latest announced rate.	
Stamp duties	Stamp duty land tax thresholds	Fixed at £125,000, £250,000, £500,000, £1 million and £2 million.	
Climate Change Levy	Levy amount	RPI.	
Aggregates Levy	Levy amount	RPI.	
Landfill tax	Tax rates	RPI, rounded to the nearest 5 pence.	Standard rate increased by £8 per tonne in April 2014. Lower rate remain frozen in 2014-15.
Vehicle Excise Duty	Duty rates	RPI, rounded to the nearest £1 or £5.	
Air Passenger Duty	Duty rates	RPI, rounded to the nearest £1.	
Tobacco Duties	Duty rates on all tobacco products	RPI.	Increase by 2 percentage points above RPI every year until 2014-15 inclusive.
Alcohol Duties	Beer duty	RPI.	
	Wine, spirits and cider duties.	RPI.	Increase by 2 percentage points above RPI every year until 2014-15 inclusive.
Fuel Duties	Duty rates on petrol and diesel	RPI	Frozen fuel duty until the end of parliament. No RPI increases until 15-16.
	Duty rate on liquefied petroleum gas (LPG)	RPI	Taxed at approximately 40p per litre less than petrol and diesel. Increase rate by 1p per litre above RPI every year until March 2024 (only when fuel duty is not frozen)
	Duty rate on compressed natural gas (CNG), Liquid Natural Gas (LNG) and biomethane	RPI	Taxed at approximately 40p per litre less than petrol and diesel until March 2024.
VAT	VAT registration threshold	RPI, rounded to the nearest £1,000.	
Gaming Duty	Gross gaming yield bands	RPI, rounded to the nearest £500.	
Business Rates	Business rates multiplier	RPI, rounded to the nearest 3 significant figures.	Increase capped at 2% for April 2014.



Office for  
**Budget  
Responsibility**

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Certification of policy costings

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# B

# Office for Budget Responsibility: certification of policy costings

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## 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 2014 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, the regional air connectivity fund and the flood maintenance and defences. This also applies to any DEL changes associated with measures that affect current receipts or AME spending – changes to DELs in such cases are also wholly determined by Government policy decisions.

**B.3** We publish a supplementary fiscal table on our website, that sets out how each of the measures shown on the Treasury's Budget 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

**B.4** All costings have been produced on the basis of the OBR's economic forecast published in our March 2014 *Economic and Fiscal outlook (EFO)*.

**B.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 Budget are set out from paragraph B.10. A fuller explanation of our approach to scrutinising and certifying the Government's policy costings can be found in *Briefing paper No.6: Policy costings and our forecast*, available on our website.

## Scrutiny and challenge process

**B.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

**B.7** The OBR emphasises the uncertainty that 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.

**B.8** In respect of the specific policy costings at this Budget, the OBR identified several measures within the Savings and Pensions package where the costings are particularly uncertain. This package of measures changes the relative returns on financial assets, of which there are well over £1 trillion outstanding. Small percentage movements in these assets would involve large sums and could affect the cost of these measures. The following measures in the package are subject to notable uncertainties:

- **Pensions – reduce withdrawal tax rate from 55% to marginal income tax rate:** the yield from this measure over the scorecard period and the consequential costs in the longer term depend on take-up and on other behavioural responses. Some people will temporarily increase pension saving in order to benefit from tax-free lump sum withdrawals. It is possible that funds will be redirected from annuities and into other assets, such as other financial products or housing. It is also possible that such funds could be used to finance consumption.
- **Voluntary National Insurance Contributions:** this measure allows pensioners to buy extra units of pension, at a per unit price aligned to their age. The cost of this measure is dependent on the rate of take-up, which in turn is dependent on how attractive an investment it is relative to other investment products at the time it becomes available. This suggests there could be large upside and downside risks to the take-up assumption, if the price was considered particularly attractive or unattractive relative to the available alternatives.
- **ISAs – equalise stocks and shares and cash ISA limits and increase to £15,000:** This measure increases and equalises the annual cash and stocks and shares limits of ISAs, to one overall limit of £15,000. There is significant uncertainty around the proportion of individuals that will move towards holding funds at the new limit. This creates uncertainty in both directions as fewer or more individuals may save at the new limit.
- **ISAs – including Peer-to-Peer lending and retail bonds:** The cost of both of these measures is dependent on the continued growth of these relatively new financial products and the appetite of investors to place such products in ISAs.

**B.9** The OBR has also identified other measures where the costings are particularly uncertain:

- A large part of the yield on **restricting migrants' access to benefits** is dependent on assumptions of EEA migration over the scorecard period. Any assumptions around migration are uncertain as such flows are volatile from year to year, as recent data have illustrated. The costings may also be affected by changes in the behaviour of migrants.

- The profile of the yield from the **accelerated payments – extension to disclosed tax avoidance schemes and the General Anti Abuse Rule** measure is dependent on a large number of assumptions, some of which again concern the behavioural response of those affected.

## **Indirect effects on the economy forecast**

**B.10** The measures in the Budget are, in aggregate, not expected to alter the OBR GDP growth forecast. The extension and increase in the Annual Investment Allowance to £500,000 until December 2015 is, however, expected to lead to some business investment being brought forward from 2016 and 2017 into 2014 and 2015. Further details are provided in Chapter 3 of the *EFO*.

**B.11** Changes to air passenger duty bands, alcohol duty, tobacco duty and the lower trajectory of the Carbon Price Floor (CPF) are expected to have very small and offsetting effects on inflation.





### **HM Treasury contacts**

This document can be downloaded from  
[www.gov.uk](http://www.gov.uk)

If you require this information in an alternative  
format or have general enquiries about  
HM Treasury and its work, contact:

Correspondence Team  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Tel: 020 7270 5000

E-mail: [public.enquiries@hm-treasury.gov.uk](mailto:public.enquiries@hm-treasury.gov.uk)