HM Government

Autumn Statement 2014: policy costings

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1 Introduction

1.1 This document sets out the assumptions and methodologies underlying costings for tax and Annually Managed Expenditure (AME) policy decisions announced since Budget 2014, where those policies have a greater than negligible impact on the public finances. This continues the practice established at June Budget 2010 and the principles outlined in '*Tax policy making: a new approach*', published alongside June Budget 2010.[1] This publication is part of the government's wider commitment to increased transparency.

1.2 Chapter 2 presents detailed information on the key data and assumptions underpinning the costing of policies in Autumn Statement 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.

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

1.4 Annex A, by the OBR, sets out the approach the OBR has taken to scrutiny and certification of the costings, and highlights areas of particular uncertainty.

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

2 Policy costings

The following policy decisions are included in this chapter:

- Personal Allowance: increase to £10,600 in 2015-16 with full gains to higher rate taxpayers
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Personal Allowance: increase to £10,600 in 2015-16 with full gains to higher rate taxpayers

Measure description

This measure increases the income tax personal allowance by a further £100 to £10,600 in 2015-16.

The tax base

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

The 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.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-530	-635	-640	-655	-655

Areas of uncertainty

The main uncertainties in this costing relate to the projection of SPI survey data.

ISAs: transfer to surviving spouses

Measure description

Individual Savings Account (ISA) assets currently lose their ISA tax wrapper upon death of an individual and can only be reinvested into ISAs up to the annual subscription limit (currently £15,000 p.a.). This measure will allow spouses or civil partners to invest into their own ISAs beyond their normal subscription limit from April 2015. The additional allowance will equal the ISA value held by the deceased saver at death. This measure will be apply deaths from 3 December 2014.

The tax base

The tax base is the future returns on ISAs held by individuals who die and pass on their ISA benefits. The tax base is estimated using a number of sources including the Survey of Personal Incomes, data submitted to HMRC by ISA providers, other HMRC administrative data, the ONS Wealth and Assets survey and ONS data on population, deaths and marriage status. The tax base is then grown in line with HMRC forecasts of ISA values and the OBR forecast for returns to savings.

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. Behavioural adjustments for an increase in the uptake of ISAs have been considered but are judged to have a negligible impact on the costing.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	neg.	neg.	-5	-5	-10

Areas of uncertainty

The main uncertainties in this costing relate to forecast levels of ISA saving, the rate of return to ISAs and demographic changes.

Air Passenger Duty: exempting children

Measure description

This measure extends the Air Passenger Duty (APD) exemption from children under 2 years of age not allocated a seat prior to boarding, to all children under 12 years of age subject to the reduced rate (those travelling in the lowest class of seat, typically economy class), with effect for travel from 1 May 2015 (2015-16 rates). Children under 16 years of age subject to the reduced rate will be exempted from 1 March 2016.

The tax base

APD is due on chargeable passengers being carried from a UK airport on chargeable aircraft. The tax base for this policy is

- from 1 May 2015; every passenger under the age of 12 years old and
- from 1 March 2016 onwards; every passenger under the age of 16 years old,

who are currently subject to the reduced rate and carried on a flight taking off from a UK airport.

These have been estimated using the CAA Passenger Survey and forecasting future passenger numbers. Children are assumed to be more likely than adults to travel in seats subject to the reduced rate.

Static costing

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

Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-45	-85	-90	-95	-105

Post-behavioural costing

This policy will reduce the cost of family holidays. Price elasticities of demand are used to estimate the increase in demand for flights following this change.

Post-behavioural Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-40	-80	-85	-90	-95

Areas of uncertainty

The main uncertainties in the costing relate to the estimate of the tax base and the behavioural response.

Stamp duty land tax reform: new marginal rate system

Measure description

This measure reforms residential stamp duty land tax (SDLT) from a rate system, where the tax is paid on the entire value, to a marginal rate system where each new SDLT rate will only be payable on the portion of the property value which falls within each band. The new SDLT rates are as follows:

- £0-£125,000 - 0%
- £125,001-£250,000 – 2%
- £250,001-£925,000 – 5%
- £925,001 – £1,500,000 – 10%
- Over £1,500,000 – 12%

This measure is effective on and after 4 December 2014.

The tax base

The tax base for this measure is comprised of all residential property transactions in England, Wales and Northern Ireland. Scotland is included until 31 March 2015. After this date SDLT is devolved to the Scottish government.

The tax base is estimated using HMRC administrative data and is forecast using the OBR forecast for house prices and volumes.

Static costing

The static costing for this measure is the difference between the forecast pre- and post-measures tax regimes.

Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-345	-605	-595	-605	-565	-525

Post-behavioural costing

The costing includes the following behavioural effects:

- The previous SDLT structure created substantial distortions in the housing market around SDLT thresholds. The costing smoothes these distortions.
- This measure is expected to impact on the frequency of transactions. For transactions where the tax charge is lower than the previous SDLT system there is an expected increase in the volume of transactions, and for high-value properties adjustments for wider behavioural effects have been made.
- The costing also incorporates temporary behavioural effects around implementing the new system.

Post-behavioural Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-395	-760	-840	-850	-815	-785

Areas of uncertainty

The main uncertainty is the size of the behavioural response to the reformed SDLT regime.

Enveloped dwellings: increase charges for properties over £2m

Measure description

This measure will increase the amount of the annual tax on enveloped dwellings (ATED) annual charge payable by residential properties worth more than £2m by 50% above inflation (previous September Consumer Price Index). The new charges will take effect in 2015-16 and are given below:

Property value	Annual charge in 2015/16
£2m-£5m	£23,350
£5m-£10m	£54,450
£10m-£20m	£109,050
£20m+	£218, 200

The tax base

The tax base is the full year equivalent stock of residential properties valued at over £2m liable to ATED that are owned by any non-natural person (i.e. within "envelopes"). This is estimated from ATED and SDLT administrative data, held by HMRC. The tax base is grown in line with HMRC administrative data and the relevant elements of the OBR's economic forecast.

Static costing

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

Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+50	+55	+55	+110	+115

Post-behavioural costing

The costing takes into account a range of behavioural effects. It is expected that some de-enveloping of properties will occur as a result of the increase in charges. The net present value of the charge is expected to be fully capitalised into house prices over a period of 25 years. Subsequent CGT and SDLT effects are also modelled.

Post-behavioural Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	+10	+95	+50	+45	+90	+140

Areas of uncertainty

There are uncertainties in the growth of this stock, and the behavioural responses to these measures.

Research and Development (R&D) credit: changes to qualifying expenditure

Measure description

This measure will restrict qualifying expenditure for R&D tax credits so that the costs of materials incorporated in products that are sold are not eligible. It will be effective from 1 April 2015.

The tax base

The tax base for this measure is the amount of expenditure on consumables which are sold as part of a finished product, which companies use to make claims for R&D tax credits. The tax base is estimated using HMRC administrative data on R&D tax credits claims.

Costing

The costing is estimated by applying the effective rate of relief for the scheme to the change in qualifying expenditure for each scheme.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+20	+55	+55	+60	+60

Areas of uncertainty

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

Research and Development (R&D) credit: increase above the line credit to 11% and increase SME scheme to 230%

Measure description

This measure increases the rate of the above the line credit available for large company Research & Development (R&D) from 10% to 11% and increases the enhanced deduction under the SME scheme from 225% to 230%. This measure is effective from April 2015.

The tax base

The tax base is the level of R&D expenditure used to claim R&D relief. This is estimated using published national statistics on the amount of R&D relief claimed for accounting periods ending in 2012-13. This is then grown using OBR forecasts for GDP and growth in R&D expenditure.

Costing

The static costing is the difference between the pre- and post- measures tax regimes.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-45	-110	-130	-130	-135

Areas of uncertainty

The main uncertainties with the costing are the size of the tax base.

Creative sector tax reliefs: children's TV

Measure description

This measure provides tax relief for expenditure on children's television production. From April 2015, eligible companies can reduce their corporation tax liabilities or claim a payable tax credit at a rate of 25%. Both the additional deduction and the payable credit are calculated on the basis of UK core expenditure up to a maximum of 80% of the total core expenditure. This is subject to state aid clearance.

The tax base

The tax base is the amount of qualifying expenditure on children's television production that is culturally British, estimated using data from OFCOM and the industry.

Static costing

The static costing is calculated by applying the appropriate rates of tax relief to the tax bases described above.

Post-behavioural costing

A behavioural adjustment is made to account for additional expenditure and additional productions incentivised by the measure.

Post-behavioural Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-5	-5	-5	-5	-5

Areas of uncertainty

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

Social investment tax relief

Measure description

Social Investment Tax Relief (SITR) has been in place since 6 April 2014, to incentivise direct private investment in social enterprises.

The measure will increase the amounts that can be invested in an individual organisation as follows:

- an annual limit of £5 million will be introduced
- the overall amount will be increased to £15 million.

The measure will allow certain small agricultural and horticultural projects that will not be eligible for direct payments under the Common Agricultural Policy reforms to be qualifying trades for the purposes of SITR.

The measure will widen the range of eligible social impact bonds (SIBs) to include certain spot purchased and sub-contracted SIBs.

The tax base

The tax base is estimated using existing data on social investment via financial intermediaries and on SIBs. The tax base is increased in line with OBR forecasts, grown in line with equity price determinants.

Static costing

The static costing is the additional eligible investment multiplied by the relief rate, with an adjustment made for the proportion of the relief likely to be claimed.

Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	-5	-5	-5	-5

Post-behavioural costing

The post behavioural costing takes into account stimulated investment.

Post-behavioural Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	-10	-15	-20	-25

Areas of uncertainty

The main uncertainties are the current levels of direct investment into social enterprises and the behavioural response to the new increased investment limit. Aspects of the measure remain subject to State aid clearance.

Business rates: small business relief extension

Measure description

The small business rate relief (SBRR) provides 50% relief for eligible businesses, and is funded through the business rates system. This measure doubles the relief given to businesses eligible for SBRR for a further 12 months from 1 April 2015, at Exchequer cost. It offers 100% relief up to a rateable value of £6,000, with relief tapering to the SBRR threshold of £12,000 rateable value.

The tax base

The primary data sources are National Non-domestic Rates 1 (NNDR1) returns provided by local authorities and published by the Department for Communities and Local Government. The tax base for this measure is the amount of relief given to businesses with a hereditament (non-domestic property) eligible for SBRR.

Costing

The starting point for the static cost is the NNDR1 forecast for the cost of SBRR for 2014-15. This number is then adjusted to reflect inflation (using the RPI data by which business rates are uprated annually).

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

A further adjustment is made to account for the impact of the retail discount already scored for 2015-16. At Autumn Statement 2013 the Chancellor announced a £1,000 discount for retailers. This measure was scored for two years, 2014-15 and 2015-16. The costing for 2015-16 assumed that SBRR would not be doubled. However, some properties that were scored for the retail discount will now receive doubled SBRR instead. This costing includes an adjustment to reflect the reduction in the cost of the retail discount resulting from the doubling of SBRR.

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

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-500	+70	+5	0	0

Business rates: cap increase at 2% in 2015-16

Measure description

Business rates are an annual tax on non-domestic property. The multiplier (the tax rate) is increased each year in line with inflation (the figure used is the RPI from the preceding September). This measure caps the 2015-16 increase in the business rates multiplier at 2%.

The cost base

The primary data source is the OBR forecast for future business rates receipts and the OBR forecast for RPI and the National Non-domestic Rates 1 (NNDR1) returns provided by local authorities and published by the Department for Communities and Local Government. The tax base for this measure is the 1.8m hereditaments that are liable for business rates.

Costing

The starting point for the static cost is to calculate the cost of business rates in 2015-16 if no cap is in place. The NNDR1 return forecasts the total cost of business rates for 2014-15. This forecast is then uprated by the RPI figure from September 2014 to provide the 2015-16 forecast.

Next, the static cost with a 2% cap is calculated. The same methodology as above is repeated but replacing the RPI uprating with a 2% uprating. The difference between the two calculations equates to the cost of this measure.

The costs continue after the first year as the multiplier each year is dependent on the previous year's multiplier. The forecasts for the years following 2015-16 were therefore also updated.

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

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

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

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-125	-90	-85	-85	-85

Business rates: increase retail discount to £1,500 in 2015-16

Measure description

This measure grants an additional £500 discount to shops, pubs, cafes and restaurants with a rateable value of £50,000 or below for 2015-16.

The cost base

The primary data sources are the National Non-domestic Rates 1 (NNDR1) returns provided by local authorities and published by the Department for Communities and Local Government (DCLG) and the Valuation Office Agency's 2010 rating list of non-domestic properties. The tax base for this measure is properties classified as retail as set out by DCLG guidance that have a rateable value of £50,000 of less and are not empty or in receipt of 100% relief.

Costing

The starting point for the costing is the NNDR1 forecast for the cost of the £1,000 retail discount for 2014-15. This number is the adjusted to reflect inflation and amended to reflect the £500 extension to the existing £1,000 discount.

The costing takes account of the continuation of the temporary doubling of the Small Business Rate Relief in 2015-16.

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

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

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-130	+20	+5	0	0

Business rates: transitional relief

Measure description

This measure will extend the transitional arrangements for properties with a rateable value of £50,000 and below facing significant bill increases due to the ending of transitional rate relief from 1 April 2015 to 31 March 2017.

The cost base

The Transitional Rate Relief scheme sets an annual cap in increases in bills. In the final year (2014-15) of the scheme bills cannot increase by more than 15% for small properties and 25% for medium properties[1]. Properties which continue to face bill increases in 2015-16 and 2016-17 are those that are still not paying the full amount that they should, according to the 2010 revaluation.

The tax base for this measure is the properties with a rateable value of £50,000 or below facing significant bill increases due to the ending of Transitional Rate Relief from 1 April 2015 to 31 March 2017.

Costing

The starting point for the costing is the Valuation Office Agency's non-domestic properties rating lists for 2005 and 2010. This data has been used to identify properties with a rateable value of £50,000 or below eligible for Transitional Rate Relief in 2014-15 that would otherwise face increases of 15% for small properties or 25% for medium sized properties in 2015-16 and 2016-17, and to calculate the cost of extending transitional arrangements

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

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

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-10	-5	0	0	0

[1] Small properties are those with a rateable value of below £18,000 (£25,500 in London). Medium sized properties are those with a rateable value of £50,000 or below.

Corporation tax: flood defence relief

Measure description

This measure provides a 100% tax deduction for business contributions from 1 January 2015 to a Flood and Coastal Erosion Risk Management (FCERM) partnership funding scheme.

The tax base

The tax base for this measure is the value of contributions by businesses of money or services to a partnership flood defence scheme. It is calculated using estimates from the Department for Environment, Food & Rural Affairs of the expected expenditure on the scheme and applying an assumption about the proportion of expenditure attributable to businesses.

Costing

The costing is calculated by applying the pre- and post-measure tax regimes to the qualifying expenditure that comprises the tax base. Behavioural adjustments are made to estimate the increase in expenditure on flood defences incentivised by this measure.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	neg.	-5	-5	-5	-5	-5

Areas of uncertainty

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

Office of Tax Simplification: review of expenses

Measure description

This measure implements the following recommendations made by the Office of Tax Simplification, and subsequently consulted on by HMRC:

- Abolishing the £8,500 Threshold for Benefits in Kind: This removes the exemption from tax and National Insurance Contributions on benefits in kind received by those earning at a rate of less than £8,500.

- Statutory Exemptions for Trivial Benefits in Kind: Employers will more easily be able to identify qualifying benefits in kind, which will not require reporting to HMRC or generate a tax charge or National Insurance contributions.

- Introducing a Statutory Framework for Voluntary Payrolling: This simplifies employer administration on taxable benefits in kind by introducing a statutory framework to allow employers to report and collect tax on benefits in kind in real time through payrolling.

The statutory exemptions for the trivial benefits in kind measure is effective from April 2015. The other measures are effective from April 2016.

The tax base

The tax base is estimated using HMRC administrative data and the Family Resources Survey. The tax base is then grown in line with the relevant OBR determinants.

Costing

The costing is calculated by applying the pre- and post-measures tax regimes to the tax base. Allowances are then made for behavioural responses for both employers and employees.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-10	-5	-10	-10	-10

Areas of uncertainty

The main areas of uncertainty relate to the size of the tax base and the behavioural response.

Income tax: salary sacrifice and expenses, including umbrella companies

Measure description

This measure implements one of the recommendations from the Office of Tax Simplification review.

It introduces with effect from April 2016 a general expenses exemption for qualifying expenses and removes the need for employers to report these expenses or apply for a dispensation. The exemption is not available when expenses are provided under a salary sacrifice arrangement.

The tax base

The tax base is estimated using a number of sources, including:

- HMRC administrative data
- the National Travel Survey
- the Annual Survey of Hours and Earnings, and
- the Labour Force Survey

The tax base is then grown in line with OBR determinants.

Costing

The costing is calculated by applying the pre- and post-measure tax regimes to the tax base. Allowances are then made for behavioural responses by both employers and employees.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	+120	+90	+75	+75

Areas of Uncertainty

The main areas of uncertainty relate to the size of the tax base and the behavioural response.

Oil and gas: support for investment

Measure description

The ring fence expenditure supplement (RFES) assists oil and gas companies operating on the UK Continental Shelf that do not yet have sufficient taxable income to utilise their costs and capital allowances. It adds a 10% per annum supplement to the amount of losses carried forward from one period to another for up to six accounting periods to maintain the time value of exploration, appraisal and development costs. This measure extends the time period from 6 to 10 years. The additional period will apply to losses arising on or after 5 December 2013.

The tax base

The tax base is estimated by extracting data for eligible loss-making companies to determine the extent of the losses available to carry forward and offset against taxable income. The model uses survey data supplied by operating companies and applies HMRC's North Sea oil and gas forecasting model, and the OBR's forecasts for prices, production and expenditure.

Costing

The costing is derived by applying the pre- and post-measure tax regimes to the tax base. There are no behavioural effects estimated in the period up to 2019-20.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	neg.	-10	-5	-5	0

Areas of uncertainty

The main uncertainty is around the tax base and in particular the forecast of losses and timing of reliefs.

Oil and gas: high pressure, high temperature cluster allowance

Measure description

The measure will introduce a new high pressure high temperature (HPHT) cluster area allowance to reduce the amount of adjusted ring fence profits subject to the Supplementary Charge.

The allowance is activated by production income generated from applicable cluster projects and the allowance is then available to set off against profits chargeable to the supplementary charge for the companies with interests in the cluster project.

This measure is designed to support the exploration, appraisal and development of HPHT oil and gas projects, and the surrounding area (or "cluster").

The measure will have effect in respect of capital expenditure incurred on or after 3 December 2014 in relation to an HPHT cluster area.

The tax base

All potential HPHT cluster projects have been considered in the evaluation of this measure.

Costing

The costing is calculated by applying the pre- and post-measure tax regimes to the tax base outlined above. The costing is based on output data from HMRC's forecasting model, which uses survey data supplied by companies and applies the OBR's forecasts for prices, production and expenditure.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	neg.	-5	-10	-5	-95

Areas of uncertainty

The main uncertainties in this costing relate to number of projects that might proceed as a direct result of this measure.

Oil and gas: 2% cut to the Supplementary Charge

Measure description

This measure will reduce the Supplementary Charge levied on UK oil and gas exploration and production profits from 32% to 30% from 1 January 2015 to support investment into the UK's oil and gas industry. An increase in investment is expected as a result of this measure.

The tax base

The tax base is the estimated profits from oil and gas exploration and production companies operating in the UK or on the UK Continental Shelf. This is estimated using HMRC's North Sea oil and gas forecasting model, which uses survey data supplied by operating companies and applies the OBR's forecasts of such determinants as oil & gas prices, production and expenditure.

Costing

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

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-55	-60	-50	-65	-60

Areas of uncertainty

The main uncertainty relates to the size of the tax base which is sensitive to changes in determinants.

Employment Allowance: extend to carers

Measure description

The NICs Employment Allowance introduced an annual allowance of up to £2,000 for Class 1 Secondary "employer" National Insurance contributions (NICs) from 2014-15. This gave all businesses and charities (apart from domestic employers and public services) an allowance which can be offset against their employer NICs bill. This measure extends the Employment Allowance to domestic employers of care and support workers. This measure is effective from April 2015.

The tax base

The tax base is the pay of domestic care and support employees on which employer NICs liabilities are due. This is estimated using a mixture of HMRC administrative data and publically available data. An adjustment is made to allow for projected growth in the number of domestic employers.

Costing

The static costing is calculated by applying a reduction of up to £2,000 to the estimated employer NICs liabilities described above. Adjustments are made to account for the expected take-up of the extended allowance. Take-up is expected to be high, rising to 90 per cent by 2017-18.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-10	-10	-10	-10	-10

Areas of uncertainty

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

Employer National Insurance contributions (NICs): abolish for apprentices under 25

Measure description

This measure abolishes the employer National Insurance contributions (NICs) liability on earnings up to the upper earnings limit for apprentices aged under 25 from 6 April 2016.

The tax base

The tax base is the wages of apprentices aged under 25. This has been estimated using the 2012-13 Annual Survey of Hours and Earnings along with administrative data on the number of apprenticeships from the Department for Business, Innovation and Skills. Employees (including apprentices) under the age of 21 will already be exempt from employer NICs from April 2015. The tax base has been projected forward in line with the OBR's economic forecast on employee growth and growth in average earnings.

Static costing

The static costing is derived by applying the change in the rate of employer NICs to the tax base.

Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	-115	-120	-125	-130

Post-behavioural costing

A behavioural adjustment has been made to account for take-up. Adjustments are made to take account of increased employment of apprentices aged under 25 as a result of this measure.

Post-behavioural Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	-105	-110	-120	-125

Areas of uncertainty

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

Peer-to-peer lenders: bad debt relief

Measure description

Peer-to-Peer (P2P) platforms have been regulated by the Financial Conduct Authority since April 2014. Returns to P2P loans not held in ISAs are taxable. This measure will allow losses from P2P lending (where the borrower defaults on the loans) to be used to offset interest received from loans which were repaid when calculating tax due. It will be effective from April 2016 and through self-assessment will allow individuals to make a claim for relief on losses incurred from April 2015.

The tax base

The tax base is the level of future taxable returns on P2P loans. The tax base is estimated using industry and survey data on the P2P market. The tax base is then grown using the OBR forecast for returns to savings.

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. Behavioural adjustments for a change in the uptake of P2P lending have been considered but are judged to have a negligible impact on the costing.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	-10	-15	-20	-25

Areas of uncertainty

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

Peer-to-peer lenders: withholding tax

Measure description

This measure will introduce a withholding regime for income tax to apply across all peer-to-peer (P2P) lending platforms from April 2017. P2P platforms will withhold 20% tax from taxable (i.e. non-ISA) P2P returns.

The tax base

The tax base is the level of future taxable returns on P2P loans. The tax base is estimated using industry and survey data on the P2P market. The tax base is then grown using the OBR forecast for returns to savings.

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.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	0	+60	+10	+35

Areas of uncertainty

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

Entrepreneurs' Relief: reinvested gains

Measure description

This measure will allow gains which are eligible for Entrepreneurs' Relief (ER), but are instead deferred into investments that qualify for the Enterprise Investment Scheme (EIS) or Social Investment Tax Relief (SITR), to benefit from ER when the gain is realised. This is effective from 3 December 2014.

The tax base

The tax base is derived using National Statistics on levels of investment within the EIS. For SITR the tax base relies on the direct investment expected from the SITR forecast. HMRC operational intelligence is used to determine the levels of investment within the EIS and SITR that arise from ER.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base. There is a behavioural response applied to account for the fact that it will become more attractive to invest in the EIS.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	-5	-5	-5	-5

Areas of uncertainty

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

VAT: support for search & rescue and hospices

Measure description

This measure will refund to search and rescue charities and air ambulance charities the VAT incurred on the purchase of goods and services used for their non-business activities. It will be effective from 1 April 2015.

The tax base

The tax base is an estimate of the costs of non-business activities of all UK search and rescue charities and air ambulance charities. This is estimated using data from the Royal National Lifeboat Institution and publically available accounts from the Charity Commission. The tax base is grown in line with the OBR's CPI and GDP forecast.

Costing

The costing is calculated by applying the average VAT rate to the estimated tax base or, where possible, using published data on irrecoverable VAT costs. There is not expected to be any behavioural effect as a result of these refunds.

Static exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-5	-5	-5	-5	-5	-5

Areas of uncertainty

The main area of uncertainty relates to the size of the tax base.

Corporation tax: accelerated payments and group relief

Measure description

This measure widens the remit of accelerated payment (AP) legislation, introduced in the Finance Act 2014. The measure addresses avoidance schemes involving large businesses that lead to losses surrendered as group relief. The measure will enable HMRC to issue an accelerated payment notice in circumstances that meet the existing criteria for an accelerated payment, but where the company undertaking the avoidance arrangements has no tax to pay itself. Instead the notice can prevent them from making a group relief surrender of the disputed amount. It will take effect from Royal Assent to the 2015 Finance Bill.

The tax base

The tax base is an estimate of the amount of disputed tax involving large businesses that have undertaken tax avoidance arrangements within the scope of this measure. This is estimated using HMRC administrative data.

Costing

The costing is based on the value of the total number of AP notices expected to be issued. It allows for timing adjustments to account for the issuing of notices and the payment profile. Further allowances have been made for penalties, interest and HMRC repayments.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+425	-345	-40	-30	0

Areas of uncertainty

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

Stamp duty on shares: schemes of arrangement

Measure description

This policy involves a change in Companies Act regulations to prohibit the use of share capital reductions in takeovers involving a scheme of arrangement.

Stamp Tax on Shares (STS) is ordinarily payable on purchases of shares in UK registered companies, including in connection with takeovers. However new issues of shares are not subject to STS. "Cancellation schemes" involve the reduction of a target company's share capital and the reissue of new shares, rather than a transfer of shares, and so do not give rise to a stamp duty liability.

The tax base

The tax base is the value of takeover deals that are effected by a scheme of arrangement. The tax base has been estimated using data held by Companies House on the number of schemes of arrangement that have been approved in recent years.

Static costing

The costing is estimated by multiplying the tax base by the tax rate of 0.5%. An adjustment is made to reflect the potential of the increased transaction costs associated with this measure impacting on the number of mergers that take place, and to reflect the potential risk that other avoidance mechanisms may be discovered. As there are many non-stamp costs associated with a merger the adjustment made to the impact on the number of mergers taking place is small.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	neg.	+65	+65	+55	+50	+50

Areas of uncertainty

The main areas of uncertainty are the number and value of takeover deals that are affected by this proposal.

Corporation tax: accounting treatment of credit losses

Measure description

A new accounting standard (IFRS9) for financial instruments was published in July 2014. The new standard will require companies which apply International Accounting Standards or Financial Reporting Standard 101 to make credit loss allowances on a more forward looking basis from 2018.

This will result in an increase of credit loss allowances in the companies affected. These higher allowances will effectively bring forward tax relief, therefore reducing corporation tax receipts following the adoption of the new accounting standard.

The purpose of this measure is to spread the full impact on corporation tax receipts over a 10 year period, avoiding an up-front hit to the Exchequer.

The tax base

The tax base is the additional credit losses available to businesses when they adopt IFRS9. This is estimated using publically available published annual reports and HMRC administrative data. The tax base was then grown in line with OBR forecasts.

Costing

The static costing is calculated by applying the pre- and post-measures tax regimes to the tax base. Behavioural adjustments have been considered but these have a negligible impact on the overall costing.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	+5	+10	+240	+40

Areas of uncertainty

The main uncertainty is the size of the tax base.

Corporation tax: bank losses restriction

Measure description

The measure limits the proportion of banks' annual taxable profit that can be offset by carried-forward losses to 50%. The restriction will apply to trading losses, non-trading loan relationship deficits and management expenses accruing prior to 1 April 2015. The measure applies to banks and building societies within the charge to UK corporation tax and will be effective from 1 April 2015. The measure also contains a targeted anti-avoidance rule (TAAR), applying to arrangements which create profits in companies with relevant reliefs and have a greater expected tax benefit than economic benefit. This rule will have the effect of preventing companies from offsetting any relevant reliefs against profit received from such arrangements.

The tax base

The tax base is an estimate of the amount and use of brought forward losses derived from estimates of profits and loss pools available to affected banking companies. These have been modelled, on a company-by-company basis, by assessing HMRC corporation tax returns from 2001-02 to 2011-12. The tax base is projected forward in line with the OBR's nominal GDP growth.

Static costing

The static costing is estimated 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	2019-20
Exchequer impact	0	+760	+865	+805	+795	+705

Post-behavioural costing

A behavioural adjustment has been made to account for the possibility of tax planning.

Post-behavioural Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+695	+765	+705	+695	+625

Areas of uncertainty

This costing is sensitive to uncertain assumptions around banks' future profitability and their behavioural response to the measure.

Investment managers' disguised fees income

Measure description

Annual management fees are paid to managers of investment funds, based on a percentage of assets under management. Historically, these fees were charged to tax as income; however over the last few years Private Equity funds in particular have structured themselves in ways to avoid tax by enabling these fees to be charged to Capital Gains Tax (CGT).

This measure, taking effect from April 2015, will ensure the fees are charged to income tax as trading income as they represent work undertaken to manage the investment and are not dependent on investment performance.

The tax base

The tax base comprises of annual management fees paid to managers of Private Equity funds. This is estimated using published figures on annual investments made by funds. The estimates are grown in line with the OBR Equity Price Growth determinant of the OBR's economic forecast.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base. A behavioural response is applied to account for some attrition of the yield over time.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	neg.	+160	+80	+65	+55

Areas of uncertainty

The main uncertainty in the costing is the size of the tax base and the extent of the behavioural response.

Venture capital schemes: restrictions on use

Measure description

The measure will stop investments under the tax advantaged venture capital schemes and Social Investment Tax Relief into certain low risk qualifying organisations benefiting from current or future subsidies for the generation of renewable energy. The measure is effective from 6 April 2015.

The tax base

The tax base is the annual amount invested into qualifying organisations receiving subsidies for the generation of renewable energy. The tax base is increased in line with the OBR's forecast of equity prices.

Static costing

The static costing is the investment no longer eligible for relief multiplied by the relevant tax relief rate.

Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	+60	+45	+50	+50

Post-behavioural costing

The post-behavioural costing is the static costing adjusted for non-eligible investment displaced into qualifying organisations under the tax advantaged venture capital schemes and Social Investment Tax Relief.

Post-behavioural Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-15	+30	+10	+10	+10

Areas of uncertainty

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

Special purpose share schemes

Measure description

Companies use special purpose share schemes to offer shareholders the choice to receive either a dividend or to receive a similar amount through an issue of new shares that are subsequently purchased by the company or sold to a pre-arranged third party. This measure will align the tax consequences of that choice to ensure that all shareholders are taxed as if they had received a dividend. This measure will be effective from 6 April 2015.

The tax base

The tax base is derived from estimated returns to shareholders. This is derived using HMRC administrative data, Companies House data, information from published accounts and information from the Office for National Statistics on share ownership. The tax base is grown using the OBR's forecast for profits.

Costing

The costing is calculated by applying the pre- and post-measure tax regimes to the tax base. 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	2019-20
Exchequer impact	0	0	+45	+40	+40	+40

Areas of uncertainty

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

Self-incorporation: intangible assets

Measure description

This measure restricts entrepreneurs' relief (ER) and corporation tax (CT) relief on transfers of the reputation and customer relationships associated with the business to a close company to which the seller is related. The measure will:

- deny ER on intangible assets which are transferred to a close company which is related to the transferring entity.
- restrict CT relief when a company acquires intangible assets from related individuals on the incorporation of a business.

Transfers of intangible assets to third parties will not be affected. This will allow incorporated and unincorporated businesses to compete more fairly.

Both ER and CT relief will be restricted for transfers and incorporations from 3 December 2014.

The tax base

The tax base for the ER restriction is the total amount of intangible assets that would be eligible for ER when the intangible assets is transferred to a close company to which the seller is related. The tax base for the CT relief restriction is the total value of amortisation of new intangible assets transferred on incorporation that would be deductible against CT prior to the measure being implemented. These have been estimated using HMRC administrative data. They have then been grown in line with the relevant OBR forecast.

Costing

The static cost is the difference between the pre- and post- measures tax regime applied to the tax base above. For both the ER and the CT relief restrictions there is a small behavioural effect to account for a slight reduction in the number of incorporations as a result of the policy. The main behavioural effect of the CT relief restriction is a cumulative reduction in the additional revenue collected as some incorporated businesses will seek other methods of reducing their CT contributions. The costing of the ER restriction likewise allows for some attrition.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	+5	+30	+80	+110	+135	+155

Areas of uncertainty

The main areas of uncertainty in this costing are around the tax base and the behavioural response.

Non-domiciles: increase remittance basis charge

Measure description

UK residents who are not domiciled in the UK are able to choose to pay tax on the remittance basis so that any income and gains they hold offshore are only taxable as and when they are brought in to the UK. Some may have to pay a charge of £30,000 or £50,000, known as the remittance basis charge (RBC), for each tax year in which they use the remittance basis.

This measure will change the RBC for individuals who are non-domiciled in the UK and choose to pay tax on the remittance basis. The changes will:

- increase the charge from £50,000 to £60,000 for those who have been UK residents for 12 out of the past 14 tax years; and
- introduce a new charge of £90,000 for individuals who have been UK non-domiciled and resident for 17 out of 20 years.

The measure will be effective from April 2015.

The tax base

The tax base is established using existing HMRC administrative data for the RBC population. This is then projected forward using historical growth rates of the RBC population.

Static costing

The static costing is estimated by applying the pre- and post-measures regimes to the tax base.

Static exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	+165	+120	+120	+125

Post-behavioural costing

Behavioural responses are included to account for the loss of the RBC and the income tax impacts for taxpayers choosing to pay tax on the 'arising' basis instead of the 'remittance' basis and taxpayers changing their residence status to non-resident. Income tax impacts are grown in line with relevant elements of the OBR's economic forecast to reflect future income growth.

Post-behavioural exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	+120	+90	+90	+90

Areas of uncertainty

The main area of uncertainty relates to the behavioural response.

Base Erosion and Profit Shifting (BEPS): corporation tax: hybrids

Measure description

This measure sets out for consultation the UK plans for implementing the G20-OECD agreed rules for neutralising hybrid mismatch arrangements. Hybrid mismatch arrangements exploit differences between countries' tax rules to avoid paying tax in either country, or to get excessive tax relief by deducting the same expense in more than one country.

The measure will come into effect on 1 January 2017.

The tax base

The tax base is the level of cross-border payments by companies which generate hybrid mismatches. The tax base is estimated using HMRC administrative data, the ONS Pink Book, US Bureau of Economic Analysis data, Bank of England data and industry data. This is grown in line with OBR profit forecasts and historic trends in the series.

Costing

The static costing is the difference between the pre- and post-measures tax regimes. A behavioural adjustment is made to reflect evidence of attrition in the yield from previous anti-avoidance measures, as groups attempt to mitigate the tax impact.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	+15	+70	+85	+90

Areas of uncertainty

The main areas of uncertainty relate to the tax base and behavioural response. The payments that generate hybrid mismatches are hard to identify and there is likely to be a significant behavioural response due to the characteristics of the companies targeted by this measure.

Base Erosion and Profit Shifting (BEPS): diverted profits tax

Measure description

This measure will introduce a new tax to counter the use of aggressive tax planning techniques used by multinational enterprises to divert profits from the UK to low tax jurisdictions. It will apply to business activities between connected entities that are set up in order to achieve an unfair tax advantage. The diverted profits tax will be applied using a rate of 25% from 1 April 2015.

The tax base

The tax base has been estimated using HMRC operational intelligence on a number of multinational groups within scope of the measure, and the amounts of diverted profit. This is then grown in line with the OBR forecast for profits.

Costing

The static costing is derived by applying the 25% diverted profits tax rate to the tax base.

A behavioural adjustment is also made to reflect groups that attempt to mitigate the tax impact.

Post-behavioural Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+25	+270	+360	+345	+355

Areas of uncertainty

This costing has uncertainties around the tax base and the size of the behavioural effect.

Base Erosion and Profit Shifting (BEPS): corporation tax: country-by-country reporting

Measure description

This measure gives the UK power to implement the G20-OECD agreed model for country-by-country reporting. It will require UK multinational corporations to provide HMRC with detailed annual financial information for each country in which they do business. Details will include: revenue, profit before income tax, income tax paid and accrued, total employment, capital, retained earnings and tangible assets. The enhanced level of information will improve HMRC's effectiveness in targeting its compliance activity, resulting in an increase in average compliance yield per intervention.

We anticipate that this measure will come into effect on 1 January 2016.

The tax base

The tax base is the taxable profits of UK multinational groups that are eroded or shifted overseas and challengeable if there was a compliance intervention.

Costing

Historic administrative information was used to estimate the impact on HMRC's compliance yield.

A small behavioural effect is expected as the requirement to supply this information leads to an improvement in compliance.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+5	+5	+10	+10	+15

Areas of uncertainty

There is uncertainty over the size of the tax base and the behavioural effect.

Income tax: miscellaneous losses

Measure description

This measure will counter avoidance involving income tax miscellaneous loss relief with immediate effect at Autumn Statement 2014. It will also limit the miscellaneous income against which a miscellaneous loss can be relieved with effect from tax year 2015-16.

The tax base

The tax base is an estimate of the amount of avoidance involving income tax miscellaneous loss relief using HMRC Self-Assessment data and information from the Disclosure of Tax Avoidance schemes (DOTAS) database.

Costing

The costing is estimated by applying the tax rate to the tax base. In line with the standard methodology for anti-avoidance costings, a behavioural adjustment is made to reflect evidence of attrition in the yield from previous anti-avoidance measures.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+5	+5	+5	+5	+5

Areas of uncertainty

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

Pensions flexibility: decisions since Budget 2014

Measure descriptions

These measures build upon the Pensions Flexibility measure announced at Budget 2014 which changes the tax treatment of withdrawals from Defined Contribution (DC) pensions.

Following a consultation period the government decided that:

- individuals with funded Defined Benefit (DB) schemes will continue to be allowed to transfer their pots to DC schemes.
- those who choose to flexibly access their DC pension savings will have their Annual Allowance reduced. Existing rules on small pots will continue.
- the tax treatment of pension death benefits and payments from joint life and guaranteed annuities will change.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Defined Benefit Transfers	0	+95	+180	+255	+325	+295
Reduced Annual Allowance and Small Pots Rules	0	+15	-50	-115	-120	-120
Death Benefits and Joint Life and Guaranteed Annuities	0	-50	-155	-165	-175	-185
Total	0	+60	-25	-25	+30	-10

Further information on each of these measures and their exchequer impacts is provided below.

Defined Benefit Transfers

Measure description

Individuals with funded Defined Benefit (DB) schemes will continue to be allowed to transfer their pots to Defined Contribution (DC) schemes. This will be effective from 6 April 2015.

The tax base

The tax base is funded DB pensions which could be transferred to DC schemes in order to take advantage of pensions flexibility. This is estimated using the ONS's Wealth and Assets Survey.

Costing

There is no static cost to this measure as an Exchequer effect only arises if individuals decide to transfer their DB pensions to DC in response to the measure. The costing incorporates the behavioural response of people who hold DB pensions converting them to DC, and the subsequent impact this has on the size and timing of the tax due on their pension income.

Reduced annual allowance and small pots rules

Measure description

From 6 April 2015, those who choose to flexibly access their DC pension savings will have their Annual Allowance reduced to £10,000 on future money purchase savings and £30,000 for DB savings.

However, this will usually only apply where an individual accesses a pension worth more than £10,000. These rules will mirror existing rules on small pots, and allow an individual to access up to three personal pots and unlimited occupational pots worth less than £10,000 before they are subject to the new money purchase annual allowance.

The tax base

The potential tax base is comprised of the earned income which could be contributed into pension schemes within the above limits as a result of this measure. This is estimated using the Survey of Personal Incomes and other HMRC administrative data, and the ONS Annual Survey of Hours and Earnings.

Costing

There is no static cost to this measure. Some individuals are expected to increase their contributions into pensions. This has an Exchequer impact through an increased cost of tax relief and, in some cases, exemption from National Insurance. The costing incorporates the behavioural response of these people.

Death benefits and joint life and guaranteed annuities

Measure description

The 55% charge levied on some payments from the pensions of people who died is being simplified to allow individuals to nominate a beneficiary, including non-dependants, to pass to on their death any unused funds in drawdown arrangements or uncrystallised pension funds. If the individual dies before they reach the age of 75, they will be able to pass their remaining defined contribution pension to the beneficiary tax free. The beneficiary will pay no tax on the money they withdraw from that pension, whether it is taken as a lump sum, or paid through income withdrawal from a drawdown fund. If the individual dies with a drawdown arrangement or uncrystallised funds after they reach age 75, their nominated beneficiary will be able to access the pension funds flexibly, at any age, and pay tax at their marginal rate of income tax if taken as income withdrawal or 45% if paid as a lump sum.

This will apply to first payments made to a beneficiary after 6 April 2015. For the 2015-16 tax year, if an individual dies over the age of 75 and their remaining pension is paid out as a lump sum death benefit, a charge of 45% will apply. This will be reduced to marginal rate from April 2016.

Payments from joint life or guaranteed annuities to beneficiaries including non-dependants, can be paid tax free from April 2015 where the original policyholder dies under the age of 75. This will apply to joint life and guaranteed annuities where the first payment is made to a beneficiary after 6 April 2015.

The tax base

The tax base for the death benefits charge is comprised of pension wealth left to beneficiaries at death. This has been estimated using the Survey of Personal Incomes (SPI) and other HMRC administrative data, and ONS Census data.

The tax base for joint life and guaranteed annuities is comprised of pension payments from these annuities made to beneficiaries after the death of the original policyholder. This has been estimated using annuity sales data from the Association of British Insurers, HMRC administrative data, ONS Census data and data from the SPI.

Costing

The static costing is calculated by applying the pre- and post- measure tax regimes to the tax bases outlined above. For death benefits, a behavioural response to control for individuals increasing contributions into pensions to avoid Inheritance Tax is incorporated into the costing. For annuities, the costing increases over time to reflect an increasing number of payments from these annuities being tax free.

Areas of uncertainty

The main uncertainties for these costings are the size of the respective tax bases and the behavioural response of individuals responding to the policy changes, in particular the extent to which individuals will choose to draw down their private pension savings faster than they otherwise would have done. This has been estimated using data from the Wealth and Assets Survey.

Disclosure of Tax Avoidance Schemes (DOTAS) regime changes

Measure description

This measure strengthens the Disclosure of Tax Avoidance Schemes (DOTAS) regime by:

- updating the rules determining what has to be disclosed to ensure avoidance schemes being marketed and used now are disclosed
- increasing penalties for non-declaration, and
- changing the information that must be provided to HMRC.

Primary legislation will be effective from Royal Assent in 2015.

In addition, a new taskforce in HMRC will be established to address the risks of non-compliance to the Disclosure of Tax Avoidance Schemes (DOTAS) regime. This taskforce will identify and tackle tax avoidance not currently disclosed to HMRC, to allow the schemes and users to be brought into DOTAS. This measure is effective from April 2015.

The tax base

The tax base is an estimate of the expected future flow of avoidance though the use of avoidance schemes, which are currently outside the existing DOTAS regime and undisclosed, but will be captured under this measure. This is estimated using HMRC administrative data.

Costing

The costing is calculated by estimating the size of the population that could be targeted by this measure and the amount of tax at risk. The accelerated payments regime will then apply to this expanded DOTAS population, bringing forward the yield.

A behavioural response to account for the fact that over time new schemes could be developed outside the scope of DOTAS has been incorporated into the costing.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	neg.	neg.	+30	+50	+70

Areas of uncertainty

The main areas of uncertainty relate to the size of the tax base and the behavioural response.

Direct Recovery of Debt: safeguards

Measure description

At Budget 2014 the Direct Recovery of Debt (DRD) was announced to allow HMRC to secure the payment of tax and tax credit debts above £1,000 directly from debtors' bank and building society accounts, including ISAs that have over £5,000 worth of funds, starting from 2015-16.

As announced on 21 November 2014, this measure introduces the following safeguards:-

- A face-to-face visit for all debtors who will be considered for DRD before action takes place.
- A reallocation of when debt cases will be worked, using DRD more slowly in the first year.
- Rights of appeal to the County Courts.

The measure also removes Scotland from the scope of the power, recognising its legal differences from the rest of the UK when collecting debts.

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 and debts totalling over £1,000. 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. It should be borne in mind that this note only covers the amendments made since this policy was originally costed for Budget 2014.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-60	-30	+25	+25	+25

Areas of uncertainty

The main uncertainty in the costing relates to the size of the tax base in future years.

Bolstering Large Business risk working

Measure description

This measure extends the capacity of HMRC's Large Business directorate in tackling non-compliance through the recruitment of additional staff from April 2015. These members of staff will work on tax risks in the Large Business directorate.

The tax base

The tax base is the population of businesses targeted by HMRC's Large Business directorate. It is estimated using HMRC administrative data.

Costing

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

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+10	+10	+5	+5	+5

Areas of uncertainty

The main uncertainty in this costing relates to the compliance yields which are applied.

Debt Market Integrator (DMI)

Measure description

The government will work with the private sector to improve debt collection across government, through a single, co-ordinated private sector approach which makes use of a range of debt collection services across the market. HMRC has worked with the private sector over the last few years to improve their debt collection capacity and will continue to use the private sector to collect tax debts, but will now access the market through the DMI.

The cost base

The cost base is the recoverable outstanding debt which is in scope of this measure. The cost base is estimated using HMRC administrative data.

Costing

The costing is based on estimating the likely debt recovery rates for the Debt Market Integrator. An average recovery rate of 24% per cent has been used guided by the results from the HMRC Debt Collection Agency programme. A further adjustment is made to account for those debts that would have been recovered in the absence of the intervention (the counterfactual).

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+140	+240	+270	+95	0

Areas of uncertainty

The main areas of in this costing are the value of the debt that will be returned from the DMI and the estimated collection rate.

Capital Gains Tax (CGT) Digital Calculator

Measure description

This measure will provide online capability for customers to calculate their chargeable gains on which CGT might be due and offer the choice to bring forward payment of CGT liability up to the point when the chargeable gain occurs. This measure will be effective in October 2016.

The tax base

The tax base is the OBR-certified forecast of CGT liabilities accruing from gains on disposals of assets.

Costing

The costing is an estimate of the proportion of the CGT population that would make the payment on their CGT liability earlier than the usual Self-Assessment deadline.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	+30	+75	+30	+35

Areas of uncertainty

The main uncertainties are around the proportion of the CGT population that would pay their CGT liability earlier than the usual Self-Assessment process.

Affordable housing capital funding - Housing Benefit impacts

Measure description

This measure will extend capital DEL funding for the construction of affordable homes for a further two years, to 2018-19 and 2019-20, at £955m per annum. There will be a small increase in Housing Benefit due to the conversion of existing units from social rents to higher affordable rents to support increased borrowing to fund new construction.

The cost base

The estimates are based on social rent levels and numbers of conversions and disposals, derived from data submitted by housing associations under the previous programme. Affordable rents data is taken from CORE data (Continuous Recording of Lettings and Sales). Local Housing Allowance (LHA) rates are derived from mapping Valuation Office Agency (VOA) data on LHA rates against data from the Homes and Communities Agency (HCA) on the stock of Affordable Rent properties.

Costing

The costing is arrived at by calculating the Housing Benefit impacts of:

- The creation of new units – this assumes that most tenants of new units would otherwise have been in the private rented sector, and for those tenants in receipt of Housing Benefit is the difference between the Local Housing Allowance and the Housing Benefit award based on the new affordable rent
- Conversions of existing units from social to higher affordable rent – the difference between the Housing Benefit awards in relation to the social rent and the higher affordable rents
- Disposals of social rent properties – this assumes that tenants who would have otherwise been housed in a social rent unit, are housed in the private rented sector claiming Local Housing Allowance.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	0	0	-5	-15

Areas of uncertainty

The main uncertainties in the costing are over conversion and disposal rates, the costs of borrowing for housing associations, and the level of grant per unit and continuity of welfare and rental policy.

Pensions revaluation: next steps in 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 final valuation results for the Judicial Pension Scheme published on 20 November 2014 and near final valuation results for the Armed Forces Pension Scheme, Firefighters' Pension Scheme, Scottish Teachers' and NHS pension schemes, and the NHS, Teachers, Civil Service and Police pension schemes in Northern Ireland. Final results and contribution rates for these schemes will be published in the months after Autumn Statement.

The cost base

The final results for the Judicial pension scheme, and near final results produced by scheme advisers from the Government Actuary's Department for the other schemes suggest employer contribution rates will increase across all of these schemes, with the exception of the Firefighters' pension scheme. This will produce an increase in public service pension scheme income from 2015/16 creating an offsetting net reduction in pension scheme expenditure.

Static costing

The static costing is derived from this net increase in income and reduction in expenditure as compared to the OBR forecast of Public Service Pension Schemes expenditure and receipts on a pre-measures basis.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+335	+365	+375	+385	+390

Areas of uncertainty

With the exception of the Judicial Pension Scheme, these costings reflect near final results for the pension schemes. Final valuation results will be published in the months after Autumn Statement once final checking and assurance has been completed.

Postgraduate Loans

Measure description

This measure will introduce income contingent loans of up to £10,000, planned to be available from 2016-17, for under 30s to undertake a postgraduate taught master's course. These loans will be structured so that, on average, graduates repay them fully, but they will beat commercial rates. One way of doing this is to charge an interest rate of RPI+3%, and repayments of 9% of income above a threshold of £21,000, frozen for 5 years. The government will consult on the details and will then confirm the delivery plan.

Loan Take-Up Assumptions

The loan take-up assumptions are based on Student Finance England Eligible Students studying full-time and part-time, which are English domiciled students studying at UK HEIs and EU domiciled students studying at English HEIs.

The static costing is based on student number forecasts from HEFCE using information supplied by institutions. The HEFCE report forecasts growth rates in postgraduate taught student numbers between 2013/14 and 2016/17. From 2017/18 to 2019/20 the costing assumes a 2% growth per annum in full-time students and 1% growth in part time students, based on similar growth rates over the preceding period.

The forecast growth rates in postgraduate taught numbers are shown in Table 1 below.

Table 1: Forecast growth rates in postgraduate taught number

Academic Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Full-time students	4.5%	5.7%	3.1%	2.1%	2%	2%	2%
Part-time students	-8.1%	-2.1%	2.3%	1.4%	1%	1%	1%

Key assumptions in determining overall take up:

- That approximately 75% of students have no award or financial backing to study – that is they do not receive employer funding, scholarships or other government funding. This is based on HESA data showing major source of funding for tuition fees.
- That of the 75%, around 65% of UK and EU unfunded students would take out a loan if the option is available to them.
- That of the other 25% of students who receive some form of financial backing, 10% would also take out these loans to support their studies.
- That there will be an uplift of 15% in the number of PGT students who wish to undertake PG study as a result of loan availability.
- That there is some deferral from 2015-16 to 2016-17 entry, estimated at 15% based on the figures for the impact of the 2012 reforms to the undergraduate system.

Table 2: Estimated Loan Up-take

Academic Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Estimated number of students taking out a loan	0	0	47,000	39,500	40,000	40,500

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PSND (Total)	0	0	-300	-425	-395	-365

Areas of uncertainty

There are a number of uncertainties in this costing:

- Estimated student number projections and whether there will be a change in the proportion of part-time and full-time students.
- Whether recent changes to undergraduate loans terms will affect students' decision to undertake further study.
- Whether students will continue to self-fund through savings/ wages at the current trend
- Whether the levels of industry and university support will change
- Whether the deferral effect will be the same as that for the 2012 reforms.

Tax credits: self-employment tests for Working Tax Credit

Measure description

The following measures will strengthen the existing tests for self-employed tax credits claimants:

- Genuine and Effective work test: claimants relying on their self-employment to qualify for Working Tax Credit (WTC), and who have weekly earnings below 24 hours at the National Minimum Wage, will be required to provide evidence to HMRC that they are genuinely self-employed in order to continue claiming Working Tax Credit.

- Requirement to register self-employment with HMRC and provide a Unique Tax Reference: claimants will be required to register their self-employment with HMRC and provide a Unique Tax Reference (UTR) number to claim Working Tax Credit.

Both measures will come in to effect from April 2015.

The cost and tax base

The cost base for the genuine and effective work test is the relevant population described above, and is estimated as a proportion of the OBR's WTC forecast. The tax base for the UTR requirement is an estimate of self-employed WTC claimants who do not have a UTR.

Costing

The static costing for the genuine and effective work test is calculated by applying the pre-measures and post-measures tax credits regime to the targeted population. The affected population are given full WTC eligibility in the pre-measures system and no WTC eligibility in the post-measures system. There is no behavioural impact included in the costing.

For the UTR requirement, the static costing is the estimated amount of WTC claimed by self-employed claimants who rely on their self-employed hours to qualify for WTC and do not have a UTR. A small behavioural adjustment was made to take account of a potential increase in the number of WTC claimants registering for self-assessment.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+45	+45	+30	+15	+10

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	+45	+45	+30	+15	+10

Areas of uncertainty

The main uncertainties are around the size of the tax base and the amount of the increase in the number of WTC claimants registering for self-assessment

Tax credits: prevent overpayments following change of circumstances in-year

Measure description

This measure will prevent the build-up of tax credit debt by reducing payments in-year where, due to a change in circumstances, a claimant will be on track for an overpayment. This measure extends the scope of an announcement from Autumn Statement 2013, and will be implemented in April 2015.

The tax base

The tax base is the population of tax credit claimants who receive a reduced award when a change of circumstances is reported. This is estimated using the latest HMRC administrative data.

Static costing

The costing is estimated by modelling the reduced overpayments by applying the pre- and post-measure regimes to the tax base described above. An adjustment is made for migration to Universal Credit.

Static exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+65	+50	+35	+15	+5

Post-behavioural costing

A small behavioural adjustment is made to account for people who may claim hardship, and for people who delay reporting or do not report changes.

Post-behavioural exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+60	+40	+30	+15	+10

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	+60	+40	+30	+15	+10

Areas of uncertainty

The main area of uncertainty relates to the modelling of the number of people with changes in income or other circumstances and the extent to which this will be altered by other HMRC compliance activity.

Universal Credit: supporting 85% of childcare costs

Measure description

From April 2016, the government will increase childcare support within Universal Credit (UC) to 85% of eligible childcare costs. This support will be open to all UC claimants where the lone parent or both members of a couple are in work.

The cost base

The cost base for the static costing is the forecast expenditure on UC, which is estimated by using DWP's statistical and accounting data and the OBR economic forecast.

Costing

The static costing is produced by increasing the proportion of childcare costs covered, from the pre-measure level of 70% to the post-measure level of 85%. The monthly childcare support paid to the claimant is capped at £646 for one child and at £1,108 for two or more children in registered childcare.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	-10	-130	-245	-310

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	0	-10	-130	-245	-310

Areas of uncertainty

The main uncertainties are related to the potential increase in take-up of childcare support as more households move into employment and increased levels of work.

Universal Credit: Updated Delivery Schedule

Measure description

Under the new plan, Universal Credit (UC) will be rolled out to all Jobcentres and local authorities across the country from early 2015; new claims to legacy benefits closed from 2016; and migration to follow thereafter.

The cost base

The cost base for the static costing is the forecast expenditure on UC, calculated using administrative data sources and current OBR economic assumptions, based on the old roll-out plan as set out for Budget 2014.

Costing

The costing is calculated on the basis of UC caseloads that are projected based on the new roll-out plan using the Department's Integrated Forecasting Model (INFORM). It includes the impact on HMRC tax credit caseloads. The methodological approach is consistent with OBR approved UC spending forecasts. The OBR, through a more cautious assessment, have factored in a potential 6 month delay to elements of the updated delivery schedule announced by the government. The forecast reflects this assessment.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+55	+425	+915	-110	-395

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	+55	+425	+915	-110	-395

Areas of uncertainty

The rate at which UC cost/savings build up will depend on the number of new claims to benefits each year. This will be uncertain as it depends on how economic activity changes over time as well as take up rates.

Universal Credit: simplifying assessment periods

Measure description

This measure will enable claimants who leave Universal Credit (UC) and return within a 6-month period, due to a reduction in earnings or change in circumstances, to retain their existing assessment period.

The cost base

The cost base for the static costing is the forecast expenditure on Universal Credit, calculated using DWP's statistical and accounting data and the OBR economic forecast.

Costing

The Exchequer impact is calculated by applying the pre- and post-measure regimes.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-5	-10	-20	-25	-25

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	-5	-10	-20	-25	-25

Areas of uncertainty

The main uncertainties of this costing are related to the size of the cost base.

Universal Credit: work allowances – maintain current level in 2017-18

Measure description

Universal Credit (UC) work allowances will not be uprated in 2017/18.

The cost base

The cost base for the static costing is the forecast expenditure on UC, calculated using DWP's statistical and accounting data and current OBR economic assumptions.

Costing

The static costing is produced by keeping the work allowances unchanged in cash terms in 2017/18, and then uprating in line with the consumer prices index in subsequent years. We then compare UC entitlements with those in the pre-measure base which uprates work allowances in line with CPI for all years across the costing period.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	0	+60	+115	+145

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	0	0	+60	+115	+145

Areas of uncertainty

No behavioural assumptions have been included in this costing. Since this measure will affect work incentives for some households, the main area of uncertainty around this costing is the extent to which the behavioural response to the change in work incentives will affect the costing.

Personal Independence Payment: updated delivery schedule

Measure description

This measure will roll out Personal Independence Payment natural reassessments – the migration of Disability Living Allowance (DLA) claimants due for reassessment – in a phased approach to ensure providers have sufficient capacity to undertake the assessments.

The cost base

DLA statistics and management information are used to estimate the number of DLA recipients who are eligible for reassessment and to calculate the proportion of the DLA caseload in each post code area to whom the geographically-based roll out will apply.

Costing

The costing is based on the reduced savings from DLA reassessment as a result of phasing natural reassessment of DLA recipients. For modelling purposes, this costing assumes that the phased roll-out will continue with final expansions in February 2015 and March 2015.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-30	-85	-45	-5	-10	0

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	-30	-85	-45	-5	-10	0

Areas of uncertainty

The main area of uncertainty relates to the geographical make-up of the DLA caseload.

Employment and Support Allowance: additional healthcare professionals

Measure description

This measure deploys additional healthcare professionals (HCPs) to increase the amount of Work Capability Assessments (WCA) carried out from April 2015. This measure will enable DWP to carry out more new claims assessments and more quickly turn back on the repeat assessment regime.

The cost base

The cost base is estimated using the WCA cohort dataset, Atos Management Information, and data on the outcomes from WCAs.

Costing

It is assumed that additional HCPs will be engaged in delivering WCAs from April 2015 and will deliver approximately 100,000 additional assessments per annum.

The costing includes an adjustment for savings made by switching on the repeat assessment regime again and assessing suppressed and new repeat cases will be offset by additional payments on JSA.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+30	+105	+70	+55	0

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	+30	+125	+95	+75	0

Areas of uncertainty

The uncertainties include the behavioural assumption that around 25% of any savings from assessing new repeat claims once the repeat regime is switched back on will be offset by additional JSA spend, and the forecast performance levels of the new provider.

Employment and Support Allowance: restricting repeat claims

Measure description

This measure will remove a 6 month reclaim limit and only allow further entitlement to Employment and Support Allowance (ESA) following a fit for work decision if a claimant can demonstrate that there has been a change in their condition or a new condition has developed. Currently, after 6 months a claimant previously found fit for work can reclaim ESA irrespective of whether circumstances has changed. The measure will be implemented for new claims from April 2015.

The cost base

The cost base for this measure is the population of ESA claimants repeat claims. An adjustment has been made in the early years to reflect the Autumn Statement forecast of Work Capability Assessment volumes. This is estimated using DWP administrative data and data maintained by Atos Healthcare.

Costing

The costing is estimated by modelling the reduced claims to ESA from applying the measure to the cost base described above.A behavioural adjustment is made for individuals who will choose to claim JSA when the option to claim ESA is withdrawn.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+5	+5	+5	+5	+5

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	+25	+25	+10	+10	+15

Areas of uncertainty

The main areas of uncertainty are around the number of cases potentially affected by the policy, and assumptions around the number not choosing to claim JSA when the option to claim ESA is withdrawn.

Migrant access to benefits

Measure description

Budget 2014 announced a limit of 6 months on European Economic Area (EEA) migrants' access to JSA, unless they passed a Genuine Prospect of Work assessment. This measure limits EEA migrants' access to JSA to 3 months, subject to the same assessment. In addition, a Genuine Prospect of Work assessment will be applied to EEA migrants who have been claiming JSA since before 1 January 2014. This assessment is already in place for EEA migrants who have been claiming JSA since 1 January 2014.

The cost base

The cost base is estimated on new award projections to JSA consistent with the OBR forecast.

Costing

The costing is estimated by modelling the reduced claims to JSA to the cost base described above.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	neg.	+15	+15	+10	+10	+10

Areas of uncertainty

The main uncertainties in the costing relate to future levels of migration.

Carer's Allowance: higher earnings limit

Measure description

This measure increases the prescribed earnings limit in Carer's Allowance (CA) from £102 to £110 per week.

The cost base

Estimates of the total number of CA recipients in paid employment within the earnings limits of interest have been calculated using the Labour Force Survey and 100% Work and Pensions Longitudinal Study data.

Static Costing

This costing is calculated by estimating how many carers have earnings above the current earnings limit (£102 per week) and up to £110 applying it to the population in the cost base.

Static Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-15	-20	-25	-30	-30

Post-behavioural costing

A behavioural adjustment has been made to reflect the judgment 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	2019-20
Exchequer impact	0	-5	-10	-20	-20	-20

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	-5	-10	-20	-20	-20

Areas of uncertainty

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

Pension credit passthrough

Measure description

The measure increases the Standard Minimum Guarantee (SMG) in Pension Credit (PC) in April 2015 by 1.9% (i.e. a £2.85 increase to the singles rate of the SMG). This is a larger increase than the 0.6% earnings linked increase that is legislatively required, ensuring that the cash increase in the state pension is 'passed through' to PC claimants.

To offset some of the cost, the change includes a 5.1% increase in the Savings Credit (SC) threshold and an associated decrease in the maximum SC.

In addition, the illustrative start rate of the new State Pension (nSP) has been increased by £1.95 above earnings to £151.25 in 2015/16.

The cost base

The cost base is estimated using ONS average weekly earnings index and the OBR economic forecast.

Costing

The costing of the Pension Credit payments is given relative to a baseline scenario of legislative minimum uprating of PC. The cost is derived by multiplication of forecast caseloads by changes to SMG and SC benefit amounts.

The new State Pension costing is estimated using DWP's pension models.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-10	-5	-10	-20	-30

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	-10	neg.	+5	+10	+15

Areas of uncertainty

The main areas of uncertainty in this costing relate to the behavioural impact.

Pensions flexibility: notional income rules

Measure description

This measure changes the way that notional income is calculated for individuals above the Pension Credit qualifying age who have pension pots which they have not already used to buy an annuity.

For the purposes of income assessment for those applying for means tested benefits, current rules derive a notional income equivalent to 150% of the level of income that could expect to be achieved through an annuity from a pension pot not used to buy an annuity. This policy would change the calculation to 100% of the level of income that could be achieved through an annuity. The policy is due to commence in April 2015 and will apply to existing recipients as well as those who apply for means tested benefits in the future.

The cost base

The base for this costing is medium and longer term expenditure forecasts. The model applies a number of assumptions concerning the impact that reducing the pension withdrawal tax rate will have on the way in which people access their pension pots. The pension withdrawal tax rate was announced at Budget 2014.

Costing

The impact of this change is modelled using Pensim2, DWP's dynamic micro-simulation model of future trends in pensioner incomes

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	neg.	neg.	-5	-5	-5

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	neg.	neg.	-5	-5	-5

Areas of uncertainty

There is inherent uncertainty in simulating the effects of policies on behaviour, and the modelling is also sensitive to changes in economic assumptions.

The main uncertainty in the costing is in estimating the number of individuals who choose not to annuitise the whole of their pension pot.

Bereavement benefits reform

Measure description

The Bereavement Support Payment (BSP) will replace the 3 current bereavement benefits (Bereavement Payment, Bereavement Allowance and Widowed Parent's Allowance) for deaths occurring from April 2017. Legislation for this reform was enacted in the Pensions Act 2014.[2] This reform is intended to support working-age people in a more transparent way, coherent with the wider welfare and pension system.

The Autumn Statement announces that the BSP will be exempt from income tax.

The cost base

The cost base is estimated using DWP administrative data, and is adjusted with the relevant OBR determinants.

Costing

The costing is calculated by applying rates for the new BSP to the cost base described above. The costing accounts for the tax foregone and for BSP being disregarded from income under Universal Credit rules.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	0	-55	-65	-50

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	0	0	-40	-35	-15

Areas of uncertainty

The main areas of uncertainty in this costing relate to the cost base, for which forecasts are based on characteristics of current recipients.

[2] Details of the reform can were set out in the Government's response the consultation on "Bereavement Benefits for the 21st Century".

Department of Work and Pensions (DWP): additional fraud and error capacity

Measure description

The policy will increase the capacity of DWP's fraud and error operations with 196 additional staff to undertake telephony and letter based interventions targeting unreported changes of circumstance in the Income Support, Jobseeker's Allowance, Employment and Support Allowance and Pension Credit caseload.

The cost base

The cost base is the stock of overpaid expenditure in the system available for Fraud and Error operational activity to target, taken from Fraud and Error National Statistics.

Costing

The costing is calculated by multiplying the additional staff by the average expected reduction to benefit awards achieved per staff member and the expected future duration of the overpayments found.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+45	+10	+5	-10	0

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	0	+45	+10	+5	-10	0

Areas of uncertainty

The main uncertainties in the costing relate to how additional work will be split across the four main benefits targeted.

DWP Fraud and Error: local authority incentive scheme

Measure description

The measure will establish a payment by results mechanism to encourage local authorities to reduce overpayments of Housing Benefit (HB). Local authorities will be paid to increase the value of adjustments made to HB awards up to a lower performance threshold. Further payments will be made for performance beyond the initial threshold, up to a maximum payment at the upper performance improvement threshold. The scheme will be available from December 2014 and is intended to continue until April 2016.

The cost base

The cost base is taken from HB administrative on the total value of downward adjustments made to Housing Benefit awards by local authorities in 2012-13 and 2013-14.

Costing

The costing is calculated by multiplying the estimated uplift in local authority performance estimated to be driven by the incentive scheme, by the estimated saving to AME per £1 adjustment to HB award. Assumptions about local authorities' performance include the recoveries that would have occurred in the baseline, as well as underpayments which occur in HB awards.

Exchequer impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	+10	+75	+5	0	0	0

Welfare Cap impact (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Welfare Cap impact	+10	+65	+5	0	0	0

Areas of uncertainty

The main uncertainties in the costing relate to the relative uplift in performance local authorities will achieve.

Office for
Budget
Responsibility

Certification of policy costings

A Office for Budget Responsibility: certification of policy costings

Overview

A.1 Our *Economic and fiscal outlook (EFO)* forecasts incorporate the expected impact of the policy decisions announced in each Budget and Autumn Statement on the public finances. In the run-up to each statement, the Government provides us with draft estimates of the cost or gain from each measure it is considering. We discuss these with the relevant experts and then suggest amendments if necessary. After this scrutiny process is complete, the Government chooses which measures to implement and which costings to include in its table of policy decisions. We then choose whether to certify the costings as 'reasonable and central', and whether to include them – or alternative costings – in our forecast.

A.2 In this Autumn Statement, we have certified all the costings of tax and annually managed expenditure (AME) measures that appear in the Government's policy decisions tables as reasonable and central. These tables are reproduced in this annex as Tables A.1 and A.2, with further details set out in Chapter 4 of the *EFO* and in the Treasury's *Autumn Statement 2014 policy costings document*, which summarises the methodologies used to produce each costing and provides some information on the main areas of uncertainty within each.

Uncertainty

A.3 At past Budgets and Autumn Statements, we have used our annex in the Treasury's policy costings document to highlight costings that were particularly uncertain. In this *EFO*, we have introduced a more systematic and transparent assessment of the uncertainty around each costing, building on an approach developed by the Australian Parliamentary Budget Office. It is important to stress that all the costings remain central estimates and that any uncertainty lies on both sides: the measures could raise or cost more or less than expected.

A.4 Under our new approach, we have assigned each certified costing a subjective uncertainty rating, which are shown alongside the costings in Tables A.1 and A.2. These range from 'low' to 'very high'. In order to determine the ratings, we have assessed the uncertainty arising from each of three sources: the data underpinning the costing; the complexity of the modelling required; and the possible behavioural response to the measure. We take into account the relative importance of each source of uncertainty for each costing.

Table A.1: HM Treasury table of Autumn Statement policy decisions and OBR assessment of the uncertainty of costings

		Head	£ million						
			2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Uncertainty
Households									
1	Personal Allowance: increase to £10,600 in 2015-16 with full gains to higher rate taxpayers	Tax	0	-530	-635	-640	-655	-655	Medium
2	ISAs: transfer to surviving spouses	Tax	0	*	*	-5	-5	-10	Medium
3	Air Passenger Duty: exempting children	Tax	0	-40	-80	-85	-90	-95	Medium-low
Property									
4	Stamp duty land tax reform: new marginal rate system	Tax	-395	-760	-840	-850	-815	-785	Medium-high
5	Enveloped dwellings: increase charge for properties over £2m	Tax	+10	+95	+50	+45	+90	+140	Medium
Business and employment									
6	Employer NICs: abolish for apprentices under 25	Tax	0	0	-105	-110	-120	-125	Medium-high
7	Business Rates: small business relief extension	Tax	0	-500	+70	+5	0	0	Medium-low
8	Business Rates: cap increase at 2% in 2015-16	Tax	0	-125	-90	-85	-85	-85	Low
9	Business Rates: increase retail discount to £1,500 in 2015-16	Tax	0	-130	+20	+5	0	0	Low
10	Business Rates: transitional relief	Tax	0	-10	-5	0	0	0	Medium-low
11	Employment Allowance: extend to carers	Tax	0	-10	-10	-10	-10	-10	High
12	R&D tax relief: increase large firms and SME credit	Spend	0	-40	-	-	-	-	Medium-low
13	R&D tax relief: changes to qualifying expenditure	Spend	0	+20	-	-	-	-	Medium
Investment and growth									
14	High value manufacturing catapult	Spend	0	-25	-	-	-	-	N/A
15	R&D: innovation funding	Spend	0	-70	-	-	-	-	N/A
16	Higher education: postgraduate loans	Spend	0	-15	-	-	-	-	N/A
17	Entrepreneurs' Relief: reinvested gains	Tax	0	0	-5	-5	-5	-5	Medium-low
18	Social investment tax relief	Tax	0	0	-10	-15	-20	-25	Medium-high
19	Peer-to-peer lenders: bad debt relief	Tax	0	0	-10	-15	-20	-25	Medium
20	Supporting first-time exporters	Spend	0	-20	-	-	-	-	N/A

Energy and environment								
21	Oil and gas: 2% cut to Supplementary Charge	Tax	0	-55	-60	-50	-65	-60	Medium-low
22	Oil and gas: support for investment	Tax	0	-5	-15	-15	-10	-95	Medium-high
23	Household energy efficiency incentives	Spend	-30	-70	-	-	-	-	N/A
24	Support for off-gas-grid households	Spend	0	-30	-	-	-	-	N/A
25	Corporation tax: flood defence relief	Tax	*	-5	-5	-5	-5	-5	Medium
Community								
26	Schools and children	Spend	0	-40	-	-	-	-	N/A
27	Culture and sport	Spend	-5	-30	-	-	-	-	N/A
28	Listed places of worship: support for repairs	Spend	-15	*	-	-	-	-	N/A
29	VAT: support for search & rescue and hospices	Tax	-5	-10	-5	-5	-5	-5	Low
Base erosion and profit shifting (BEPS)								
30	Diverted profits tax	Tax	0	+25	+270	+360	+345	+355	Medium-high
31	Corporation tax: hybrids	Tax	0	0	+15	+70	+85	+90	High
32	Corporation tax: country-by-country reporting	Tax	0	+5	+5	+10	+10	+15	Very high
Avoidance, tax planning and fairness								
33	Corporation tax: accounting treatment of credit losses	Tax	0	0	+5	+10	+240	+40	Medium
34	Corporation tax: bank losses restriction	Tax	0	+695	+765	+705	+695	+625	Very high
35	Non-domiciles: increase remittance basis charge	Tax	0	0	+120	+90	+90	+90	Medium
36	Self-incorporation: intangible assets	Tax	+5	+30	+80	+110	+135	+155	Medium
37	Investment managers' disguised fee income	Tax	0	*	+160	+80	+65	+55	Medium-high
38	Stamp duty on shares: schemes of arrangement	Tax	*	+65	+65	+55	+50	+50	Medium-high
39	Special purpose share schemes	Tax	0	0	+45	+40	+40	+40	Medium-high
40	Income tax: miscellaneous losses	Tax	0	+5	+5	+5	+5	+5	Medium
41	Venture capital schemes: restrictions on use	Tax	0	-15	+30	+10	+10	+10	Medium-high
42	Income tax: salary sacrifice and expenses, including umbrella companies	Tax	0	0	+120	+90	+75	+75	Very high
43	Office of Tax Simplification: review of expenses	Tax	0	-10	-5	-10	-10	-10	Medium
44	DOTAS regime changes	Tax	0	*	*	+30	+50	+70	High

45	HMRC: operational measures	Tax	0	-10	+260	+365	+145	+55	Medium-high
46	Corporation tax: accelerated payments and group relief	Tax	0	+425	-345	-40	-30	0	Medium-high
Previously announced									
47	Counter-terrorism funding	Spend	-20	-110	-	-	-	-	N/A
48	Pensions flexibility: decisions since Budget 2014	Tax	0	+60	-25	-25	+30	-10	Very high
49	Rail fares cap for 2015	Spend	-25	-95	-	-	-	0	N/A
50	Glasgow City Deal	Spend	0	-15	-	-	-	-	N/A
51	Migrant access to benefits	Spend	0	+15	-	-	-	-	Medium
52	Pool Reinsurance Limited: increased fee	Spend	+50	+175	+175	+175	+175	+175	N/A
Other									
53	Peer-to-peer lenders: withholding tax regime	Tax	0	0	0	+60	+10	+35	Medium
54	Public service pensions: next steps in revaluation	Spend	0	+335	+365	+375	+385	+390	Medium
55	Special Reserve	Spend	+200	0	-	-	-	-	N/A
56	Total fiscal impact of welfare cap measures[3]	Spend	-20	+150	-	-	-	-	See Table A.2
Health									
57	Foreign Exchange fines	Tax	+1,115	0	0	0	0	0	Low
58	NHS: fund to upgrade GP services[4]	Spend	0	-295	-295	-295	-295	0	N/A
59	Mental health and dementia	Spend	0	-45	-	-	-	-	N/A
TOTAL POLICY DECISIONS			**+865**	**-1,030**	**+75**	**+410**	**+450**	**+425**	
Total spending policy decisions			+130	-470	+240	+250	+260	+565	
Total tax policy decisions			+735	-560	-165	+160	+190	-140	
	Memo: NHS funding from the Reserve, reflected in 2015-16 spending numbers[4]	*Spend*	*0*	*-1,200*	-	-	-	-	

** Negligible*

[1] *Costings reflect the OBR's latest economic and fiscal determinants.*

[2] *Only spending numbers which directly affect borrowing in 2016-17, 2017-18, 2018-19 and 2019-20 are shown. All other spending measures do not affect borrowing as they fall within the Total Managed Expenditure assumption in those years.*

[3] *See Table A.2.*

[4] *Spending numbers include allocations for Scotland, Wales and Northern Ireland.*

Table A.2: HM Treasury table of welfare cap policy decisions and OBR assessment of the uncertainty of costings

		£ million						
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Uncertainty
Previously announced meaures								
a	Universal Credit: updated delivery schedule[3]	*0*	+55	+425	+915	-110	-395	Medium-high
b	Universal Credit: supporting 85% of childcare costs	*0*	0	-10	-130	-245	-310	Medium
c	Employment and Support Allowance: additional healthcare professionals	*0*	+30	+125	+95	+75	0	Medium
d	Employment and Support Allowance: restricting repeat claims	*0*	+25	+25	+10	+10	+15	Medium
e	Personal Independence Payment: updated delivery schedule	*-30*	-85	-45	-5	-10	0	Medium-low
f	Pensions flexibility: notional income rules for benefits	*0*	*	*	-5	-5	-5	Low
g	Bereavement benefits reform	*0*	0	0	-40	-35	-15	Medium-low
Universal Credit								
h	Simplifying assessment periods	*0*	-5	-10	-20	-25	-25	Medium
i	Work allowances: maintain current level in 2017-18	*0*	0	0	+60	+115	+145	Medium-low
Operational policy decisions								
j	DWP fraud and error: additional capacity	*0*	+45	+10	+5	-10	0	Medium
k	DWP fraud and error: local authority incentive scheme	*+10*	+65	+5	0	0	0	Medium
l	Tax credits: prevent overpayments following change of circumstances in-year	*0*	+60	+40	+30	+15	+10	Medium-low
m	Tax credits: self-employment tests for Working Tax Credit	*0*	+45	+45	+30	+15	+10	Medium-high
Other policy decisions								
n	Pension credit passthrough	*0*	-10	*	+5	+10	+15	Low
o	Carer's allowance: higher earnings limit	*0*	-5	-10	-20	-20	-20	Medium
p	Welfare cap impacts of other policy decisions[4]	*0*	-15	-5	+20	+20	+10	N/A
	Total impact of policy decisions on welfare cap	***-20***	**+205**	**+595**	**+950**	**-200**	**-565**	
	Total fiscal impact of welfare cap policy decisions[5]	**-20**	**+150**	**-**	**-**	**-**	**-**	

** Negligible*

[1] Costings reflect the OBR's latest economic and fiscal determinants.

[2] 2014-15 is not covered by the welfare cap.

[3] This reflects the updated delivery schedule announced by the government in October 2014, and the OBR's additional judgements as set out in their Economic and Fiscal Outlook.

[4] This reflects the impacts on benefits within the welfare cap of non-welfare measures, such as the impact of the Personal Allowance changes on UC entitlement.

[5] This reflects the total impact (both inside and outside the cap) of the welfare measures in this table, including impacts on non-welfare cap benefits and DWP DEL funding.

A.5 Table A.3 shows the detailed criteria and applies them to a sample policy measure from this Autumn Statement: 'Air passenger duty: exempting children', which is estimated to cost £80 million a year on average over the forecast period. For this policy we have judged that the most important source of uncertainty will be modelling, followed by the data, with the least important being behaviour. The data used to estimate this measure are high quality HMRC administrative data, so we consider this to be a 'low' source of uncertainty. The likely behavioural response is reasonably clear: lower post-tax prices for children's flights would be expected to increase demand. But this has only a relatively small impact on the costing, so we deem this a 'medium-low' source of uncertainty. The modelling is more problematic, as assumptions have to be made about the proportion of children travelling in each APD band and how those will change over the forecast period. So we regard this as a 'medium' source of uncertainty. Taking all these judgements into account, we have assigned the costing an overall uncertainty rating of 'medium-low'.

Table A.3: Example of assigning uncertainty rating criteria: 'Air passenger duty: exempting children'

Rating	Data	Modelling	Behaviour
Very high	Very little data Poor quality	Significant modelling challenges Multiple stages and/or high sensitivity on a range of unverifiable assumptions	No information on potential behaviour
High	Little data Much of it poor quality	Significant modelling challenges Multiple stages and/or high sensitivity on a range of unverifiable assumptions	Behaviour is volatile or very dependent on factors outside the tax/benefit system
Medium-high	Basic data May be from external sources Assumptions cannot be readily checked	Some modelling challenges Difficulty in generating an up-to-date baseline and sensitivity to particular underlying assumptions	Significant policy for which behaviour is hard to predict
Medium	Incomplete data High quality external sources Verifiable assumptions	Some modelling challenges Difficulty in generating an up-to-date baseline	Considerable behavioural changes or dependent on factors outside the system
Medium-low	High quality data	Straightforward modelling Few sensitive assumptions required	Behaviour fairly predictable
Low	High quality data	Straightforward modelling of new parameters for existing policy with few or no sensitive assumptions	Well established, stable and predictable behaviour
Importance	High	Low	Medium
Overall		**Medium-low**	

A.6 In this Autumn Statement, we have judged seven measures in the policy decisions table to have 'high' or 'very high' uncertainty around the central costing. These represent 12 per cent of the measures in the Autumn Statement by number and 16 per cent by absolute value (in other words ignoring whether they are expected to raise or cost money for the Exchequer). In net terms, they are expected to raise the Exchequer £4.2 billion in total over the scorecard period. The reasons for their ratings are as follows:

- **pensions flexibility: decisions since Budget 2014**: This costing receives a 'very high' uncertainty rating. The yield over the scorecard period – and the resulting costs in the longer term – depends 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 consumer spending;

- **corporation tax: bank losses restriction:** This costing receives a 'very high' uncertainty rating. The measure restricts banks' ability to set their accumulated losses off against their taxable profits. The yield from this measure is based on uncertain assumptions around the profitability of banks over the scorecard period – a key source of uncertainty in our corporation tax receipts forecast – and their behavioural response to this measure. In particular, we consider the modelling to be both complex and important for the costing. If the banking sector makes higher or lower than expected gross profits over the next few years then the yield from this measure could be considerably higher or lower;

- **exemption on qualifying expenses:** This costing receives a 'very high' uncertainty rating. The measure replaces the 'dispensations' regime with an exemption for qualifying expenses payments, introducing a new rule that the exemption cannot be used in conjunction with salary sacrifice arrangements. HMRC does not hold detailed information in this area and so the costing relied on uncertain external data sources. There are also a large number of behavioural adjustments in the costing that reduce the post-behavioural yield significantly relative to the static costing and are subject with significant uncertainty;

- **base erosion and profit shifting – country-by-country reporting:** This costing receives a 'very high' uncertainty rating. The measure will result in UK multinational corporations filling in a template giving financial information, including tax paid, in each of the jurisdictions where they have a presence. There is considerable uncertainty around both the data and behavioural response in this costing. There is little information available to HMRC on the level of profit shifting that will be captured by this measure. This measure is expected to lead to increased compliance by multinational corporations whose behaviour is very hard to predict;

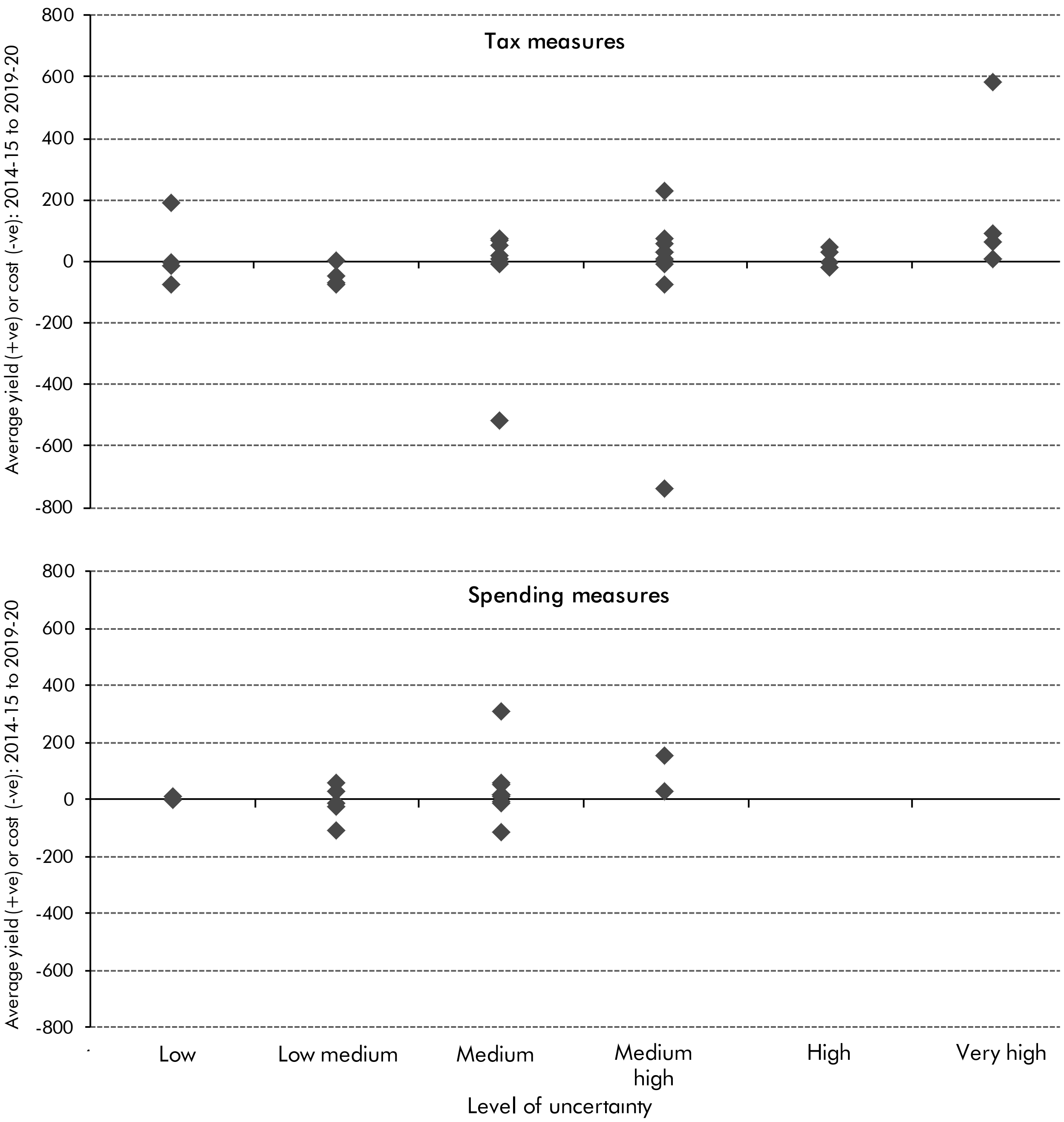
- **base erosion and profit shifting – corporation tax: hybrids:** This costing receives a 'high' uncertainty rating. The measure implements the proposed OECD rules on hybrid mismatch arrangements, used by companies to gain tax deductions in two jurisdictions for a single payment or to claim a deduction with no corresponding receipt. There is a high level of uncertainty with both the data and behaviour in this costing. The data used to produce the costing is based on incomplete HMRC data and external sources. The behaviour change is likely to be volatile and large due to the characteristics of the companies targeted by this measure;

- **employment allowance: extend to carers:** This costing receives a 'high' uncertainty rating. The measure extends the employment allowance to employers of domestic care workers. HMRC does not have detailed information on the amount of employers who will be affected and therefore the costing relies on uncertain external data sources; and

- **DOTAS regime changes:** This costing receives a 'high' uncertainty. The aim of this measure is to expand the existing set of DOTAS hallmarks to identify and tackle avoidance that is not being disclosed. There is likely to be a highly uncertain behavioural response as the DOTAS regime targets a specific subset of taxpayers who are already actively changing their behaviour in response to the tax system.

A.7 We have judged 23 measures to have 'low-medium' or 'high-medium' uncertainty around the central costing, with a further 6 costings having 'low' uncertainty. That means that 77 per cent of the Autumn Statement measures have been placed in the medium range (78 per cent by absolute value) and 11 per cent have been rated as low uncertainty (6 per cent by absolute value). Chart A.1 plots these uncertainty ratings relative to the amount each policy measure is expected to raise or cost.

Chart A.1: OBR assessment of the uncertainty of costings



Anti-avoidance costings

A.8 The revenue impact of anti-avoidance measures tends to be particularly uncertain. This has been borne out by an evaluation of past measures. The Treasury Select Committee's report on Autumn Statement 2013 recommended that we report on whether the yields from anti-avoidance measures were attained as originally costed. We have presented our findings in Box 4.2 of the *EFO*. This exercise has confirmed that such costings are subject to significant uncertainty – these measures often target a specific subset of taxpayers who are already actively changing their behaviour in response to the tax system. It also suggests that there has not been systematic bias across the costings: while the shortfall from the UK-Swiss tax agreement means that the total yield from the measures reviewed was lower than expected, across other measures there were both upside and downside surprises. We will continue to work with HMRC to review the performance of anti-avoidance measures and ensure that the lessons learnt are applied when we look at future policy costings in these areas.

Pensions flexibility measures

A.9 Our forecast reflects the expected effect of further changes to the rules governing people's access to their pension assets announced in the Autumn Statement, and an updated assessment of the effect of the changes announced in Budget 2014. Relative to the amounts incorporated in our March forecast, these effects are small. But both the latest adjustments and the original estimate are small relative to the uncertainty associated with the large financial flows that are likely to result from the changes. Among other effects, these include:

- flows out of pension assets for some people incentivised by the reduction in the tax charge and the removal of the requirement to annuitise, which could flow into other financial and real (e.g. housing) assets or immediate spending. Such withdrawals would raise income tax receipts as they happen, but reduce them later; and

- flows into pension assets for some people incentivised by the more flexible access to that tax-efficient saving in the future, which could reduce amounts that would have otherwise flowed into other financial and real assets, or spending if those people saved more to maximise their post-tax returns from this saving.

A.10 We have assumed that these flows will increase income tax receipts in the forecast period, but reduce NICs, which are only affected by greater flows into pension assets. We have also assumed that the effect of flows into other financial and real assets, and consumer spending, will net off. But that reflects the lack of any strong evidence to assume one effect will be larger than the other. In reality, the effect is very unlikely to be perfectly neutral.

Small measures

A.11 The BRC has agreed a set of conditions that, if met, allow OBR staff to put an individual policy measure through a streamlined scrutiny process. These conditions are:

- the expected cost or yield does not exceed £25 million in any year;

- there is a good degree of certainty over the tax base;
- it is analytically straightforward;
- there is a limited, well-defined behaviour response; and
- it is not a contentious measure.

A.12 The small measures process has been particularly helpful at this Autumn Statement due to the unusually large number of measures we have been asked to scrutinise.

A.13 A good example of a small measure announced at Autumn Statement 2014 is 'VAT refunds: search and rescue'. This costing was based on qualifying expenditure from published accounts, the modelling involves simple assumptions about the proportion of expenditure that is standard-rated for VAT, and there was judged to be no behavioural response that could plausibly lead to a cost above the small measures cap.

A.14 By definition, any costings that meet all of these conditions will have a maximum uncertainty rating of 'medium'.

Indirect effects on the economy

A.15 The measures in the Autumn Statement do not, in aggregate, alter our GDP growth forecast. The Government has announced a number of measures taking effect between 2014-15 and 2019-20 that are expected to have a neutral fiscal impact overall, with 'giveaways' offsetting 'takeaways' over this period. Further details are provided in Box 3.1

A.16 The immediate reforms to stamp duty land tax announced in the Autumn Statement are likely to have significant effects on the UK housing market. The main effect is likely to be distributional – house prices and transactions will be lifted at lower prices (where the effective tax rate has been reduced) and will be depressed at higher prices (where the effective tax rate has risen). These effects are reflected in the costing of the measure (described in Box 4.5) rather than via our economy forecast.

A.17 We have, however, increased the overall volume of property transactions by an eventual 1.1 per cent to reflect the fact that the volume-weighted effective tax rate has been reduced – i.e. that the costs associated with the vast majority of transactions will be slightly cheaper, more than offsetting the small number where they will be significantly more expensive. As property transactions contribute directly to the measure of residential investment in GDP, we have also adjusted our residential investment forecast upwards by an eventual 0.2 per cent. We assume that this affects the composition of GDP rather than the overall size of the economy, since we have not assumed that the policy raises whole economy productivity.

A.18 We have not adjusted our economy forecast in light of the further changes to the rules governing people's access to their pension assets announced in the Autumn Statement, or our updated assessment of the effect of the changes announced in Budget 2014.

Departmental spending

A.19 We do not scrutinise the costings of policies that reallocate spending within Departmental Expenditure Limits (DELs), since the total cost or yield is wholly determined by a Government policy decision. Neither do we scrutinise the DEL implications of measures that affect current receipts or AME spending, where those are also wholly determined by Government policy decisions. Instead we include the overall DEL envelopes for current and capital spending in our forecast, plus judgements on the extent to which we expect those be over- or underspent in aggregate. In this forecast, we judge – in line with historical experience and our recent forecasts – that they will be modestly underspent in 2014-15 and 2015-16.

Total managed expenditure beyond the Spending Review

A.20 Beyond the years for which the Government has set detailed spending plans, our forecasts are based on the Government's assumption for the growth in Total Managed Expenditure (TME). While changes in this assumption do not appear in the Treasury's table of policy decisions, they can lead to substantial changes in the implied envelopes for current and capital spending in our forecast. The changes that have resulted at this Autumn Statement are described in Chapter 4 of the *EFO*.

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

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