HM Government

Budget 2015:
policy costings

March 2015

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Contents

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 Budget 2015. 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 sets out the indexation assumptions included in the public finances forecast baseline, including all pre-announcements. Annex B, by the OBR, sets out the approach the OBR has taken to scrutiny and certification of the costings, and highlights areas of particular uncertainty.

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

2 Policy costings

The following policy costings are included in this chapter:

- Personal Allowance: increase to £10,800 in 2016-17 and to £11,000 in 2017-18 with full gains to higher rate taxpayers
- Fuel Duty: cancel September 2015 RPI increase
- Alcohol duty
- Savings tax: allowance and ISA flexibility
- Help to Buy: ISA
- NS&I bonds for people aged 65 and over: extension
- Pensions: lifetime allowance to £1 million from 2016-17, and index with inflation from 2018-19
- Annuities: secondary market
- Income tax: extending farmers' profits averaging period to 5 years
- Film tax relief: increase the rate to 25 per cent for all qualifying expenditure
- Changes to high-end television tax relief
- Orchestra tax relief
- Venture Capital Schemes: qualifying criteria
- Enterprise Zones
- Employment intermediaries: travel and subsistence (umbrella companies)
- Oil and gas: investment support
- Bank Levy: increase to 0.21 per cent
- Corporation Tax: bank compensation payments
- Company car taxation: 3ppt increase in 2019-20
- Heavy Goods Vehicles: freeze VED and the Road User Levy
- Aggregates Levy: freeze in 2015-16
- Capital Allowances: energy and water efficient technologies
- VAT: foreign branches
- Corporation Tax: contrived loss arrangements
- Evasion: Common Reporting Standard
- Capital gains tax: contrived ownership arrangements
- Capital gains tax: associated disposal rules
- Tobacco: enforcement

- Accelerated Payments: extension
- Stamp Duty Land Tax (SDLT): property funds
- DWP Fraud and Error: strategic use of RTI to prevent fraud in pension credit and HB
- Restricting EEA jobseekers’ access to Universal Credit
- Waiting days in Universal Credit
- Implementation of Strengthen Self-Employed Test for Working Tax Credit
- Affordable housing: Housing Benefit impacts

Personal Allowance: increase to £10,800 in 2016-17 and to £11,000 in 2017-18 with full gains to higher rate taxpayers

Measure description

This measure increases the personal allowance to £10,800 in 2016-17 and £11,000 in 2017-18. These gains are passed on to higher rate taxpayers. As with previous increases, the NICs Upper Earnings Limit is linked to the higher rate threshold and the Marriage Allowance is increased in proportion to the personal allowance.

The tax base

The tax base is estimated using data on taxable incomes taken from the Survey of Personal Incomes (SPI), comprising a sample of around 705,000 tax records, weighted to be representative of all taxpayers. The latest available data is for the tax year 2012-13.

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.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	-960	-1,480	-1,585	-1,680

Areas of uncertainty

The main uncertainties in this costing relate to the projection of SPI survey data from 2012-13, which in particular affects the number of baseline taxpayers who will benefit from the measure.

Fuel Duty: cancel September 2015 RPI increase

Measure description

This measure cancels the September 2015 RPI increase in fuel duty.

The tax base

The tax base for this policy is every litre of taxable fuel that is made available for use in the UK. In 2013-14 this amounted to 50.7 billion litres of fuel. Estimates of the tax base over the costing period come directly from the Fuel Duty forecast.

Static costing

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

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-145	-255	-255	-260	-265

Post-behavioural costing

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

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact (total)	-140	-240	-245	-250	-250

Areas of uncertainty

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

Alcohol duty

Measure description

This measure makes the following duty rate changes from 23 March:

- reduce the duty rate on standard strength beer by 2 per cent, reduce the duty rate on low strength beer by 6 per cent and reduce the total duty rate on high strength beer by 0.75 per cent
- reduce the duty rate on spirits by 2 per cent
- reduce the duty rate on lower strength cider by 2 per cent and on high-strength still cider by 1.3 per cent
- freeze the duty rate on wine

The tax base

The tax base for this measure is the total receipts from all alcohol released for sale in the UK (clearances). Forecast annual clearances are estimated from the OBR's alcohol duty receipts forecast.

Static costing

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

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-230	-235	-250	-255	-260

Post-behavioural costing

A behavioural adjustment is made to take into account changes in consumption of alcohol in response to a price reduction. The impact depends on the proportion of alcohol price which is tax; determined by the type of alcohol, price and where it is consumed. The consumption response to changes in prices are estimated using price elasticities. The elasticities used are new estimates published in HMRC Working Paper 16 "Estimation of price elasticities of demand for alcohol in the UK".

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-185	-175	-185	-185	-190

Areas of uncertainty

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

Savings tax: allowance and ISA flexibility

Measure description

This measure supports savers by introducing:

- a tax-free savings income allowance to remove tax on up to £1,000 of savings income for basic rate taxpayers and up to £500 for higher rate taxpayers. A new allowance will not be introduced for additional rate taxpayers. The measure will be effective from April 2016
- in-year flexibility for Individual Savings Accounts (ISAs). Under current rules ISA savers are unable to replace any withdrawals that have been made once the ISA limit has been reached in each tax year. This measure will allow people to replace any ISA withdrawals they have made within a tax year up to the ISA limit. The measure will be effective from autumn 2015
- an extension to the list of qualifying investments for ISAs

This measure will also pre-populate Bank and Building Societies Interest data for PAYE customers to have more accurate tax calculations of interest. This will be achieved by using data supplied by banks and building societies to HMRC. This will be trialled for a sample of taxpayers from autumn 2015 with a full roll-out planned for the 2017-18 tax year.

The tax base

The tax base is savings income. This is estimated using taken from the Survey of Personal Incomes (SPI), the latest available data being for the tax year 2012-13.

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

Costing

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

The costing includes an impact to account for the amount of tax due from taxpayers who do not declare savings tax liabilities to HMRC. There is also a behavioural response to account for some increased take-up of interest-bearing savings assets, and the take-up of ISA flexibility.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-15	-1,030	-565	-640	-765

Areas of uncertainty

There are uncertainties in the costing related to the future level of interest income received by taxpayers, and the size of the anticipated behavioural response.

Help to Buy: ISA

Measure description

This new government scheme supports first time buyers saving for a deposit. Participating savers will receive a bonus from the government towards savings for a deposit on their first home, equivalent to 25 per cent of the account balance. Savers will be able to deposit up to £200 in to a specific account every month. The maximum lifetime bonus available will be capped at £3,000 with a minimum bonus of £400. The government bonus can only be used by a first time buyer purchasing a home located in the UK that is under £250,000 (or £450,000 in London).

The baseline

The baseline for take-up of this policy is the existing number of first time buyers. This is taken from Council of Mortgage Lenders data and is forecast by assuming that the number of first time buyers as a proportion of total transactions remains constant (25.50 per cent) applying this to forecast total transactions.

Static costing

The key assumption that drives the static costing is that take-up is 100 per cent. This is based on the expected behaviour of entirely rational consumers with perfect knowledge and the money to save, who would see that the monetary benefit of this scheme, regardless of how close they are to purchasing their property, outweighs the opportunity cost of opening the account.

This scheme will also incentivise some individuals to start saving to purchase their first home. Due to the length of time it takes to save for a deposit, the bulk of these individuals will purchase their property from 2020, with the expectation that 10,000 additional first time buyers will purchase a home each year in the long-run.

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-65	-380	-690	-1,035	-1,385

Post-behavioural costing

Take-up assumptions change significantly for the post-behavioural costing. We assume that use of the voucher increases gradually over the second quarter of the policy, rising from 40 per cent for those purchasing their property in December, to a steady-state level of 60 per cent for those purchasing from April 2016 (due to the minimum withdrawal limit individuals cannot use their voucher prior to December).

Take-up is forecast at 60 per cent due to the structure of this savings account, which is designed to aid those individuals who find it difficult to save for a home. With a monthly limit of £200, it will take individuals a minimum of 4.5 years to receive the full £3,000 government contribution. This account is therefore most attractive to the average saver who can save gradually, but do not expect to buy for a number of years. The relative benefit of this account is likely to be lower for those on the highest incomes or those who already have the money, as they will be saving for a significantly shorter period of time. This will lead to reduced take-up amongst this cohort.

In addition, there is a high degree of customer inertia observed within financial services.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-35	-230	-415	-640	-835

Areas of uncertainty

Take-up is the main area of uncertainty for this costing due to the reasons outlined above.

NS&I bonds for people aged 65 and over: extension

Measure description

On 15 January 2015 the government launched market-leading bonds for the 65s and over through National Savings and Investments (NS&I), offering a £10 billion allocation of these bonds. On 8 February the Chancellor announced an extension of the availability of these bonds to 15 May 2015. As a result of this extension NS&I are forecasting total sales of £13.2 billion. The note covers the costs of the additional £3.2 billion of sales as a result of this extension.

The cost base

The bonds are priced at 2.8 per cent for the one year bond and 4 per cent on the three year bond, before tax, each with £10,000 investment limits.

Costing

Money raised by NS&I is public borrowing and interest paid on NS&I products is debt interest.

The costing is calculated by estimating the increased cost of the NS&I product over usual borrowing decisions, which it is assumed would raise the money through a mixture of Gilts and T-bills. This is the difference between a pre-measure scenario where the government raises £3.2 billion through the Debt Management Office (DMO), and a post-measure scenario where £3.2 billion is raised through the new NS&I bonds rather than through gilts. Both scenarios have been adjusted for tax receipts and are based on the DMO forecast of borrowing costs over the period to 15 May 2015.

Exchequer impact (£m):

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-90	-70	-65	neg	0

Areas of uncertainty

The main areas of uncertainty in this costing are movements in the cost of borrowing through Gilts and T-Bills, and variations from the forecast sales of the products to 15 May 2015.

Pensions: lifetime allowance to £1 million from 2016-17, and index with inflation from 2018-19

Measure description

This measure reduces the pensions tax relief lifetime allowance (LTA) from £1.25m to £1m from tax year 2016-17 onwards, with a protection regime. The allowance will be indexed by CPI from 2018-19.

The tax base

The tax base for this measure are private pension contributions and pension wealth of individuals that expect to have pension wealth above the new lower lifetime allowance (LTA) when they retire. This is estimated using the Wealth and Assets Survey and is projected forward using assumed pensions contributions and estimates of the real rate of return on pensions savings taken from the OECD and the Government Actuary's Department.

Costing

A behavioural adjustment is made to take into account changes in individuals' pension contributions to avoid lifetime allowance charges. The costing is also adjusted to account for some public sector workers near retirement choosing to opt out of their pensions to protect any current pension wealth above the new LTA, thereby reducing the value of pension contributions the government receives from public sector workers. Small adjustments have also been made to account for possible forestalling.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	+60	+300	+420	+550	+590

Areas of uncertainty

The main uncertainty in this costing relates to the assumptions on the real rates of return on pension savings and the extent of the behavioural effect.

Annuities: secondary market

Measure description

This measure will allow people who are already receiving income from an annuity to assign that income to a third party as and when they choose, taking the value as a lump sum or transferring the lump sum to an alternative retirement income product. The assignment of the annuity will not attract the current 55 per cent penalty charge for unauthorised annuity sales and will be taxed instead at an individual's marginal rate of tax. The measure includes a series of protections. The government believes that for most people, continuing to hold their annuity will be the right decision.

The tax base

The tax base is the existing 6 million annuity contracts currently in force making annual payments of around £13.3 billion.

Costing

The costing has been estimated using Association of British Insurers (ABI) statistics, data from the Survey of Personal Incomes and ONS population estimates.

The costing depends upon an estimate of the number of people who make use of the ability to assign their annuity. This leads to an increase in income tax received in early years as individuals will now pay tax on the proceeds of any annuity sale. There will then be reduced income tax on annuity payments in later years.

When an individual reassigns the income from their annuity, this could therefore change their entitlement to means-tested social security benefits and leads to an Exchequer cost. The estimated costs assume that rules relating to the deprivation of income will be applied. However, the government is consulting on whether individuals on means tested benefits should be able to reassign their annuity income.

The proceeds of any annuity sale could either be held as part of a flexible drawdown product or taken in full as a lump sum. Any sum received from the sale of an annuity will be taxed at the individual's marginal rate of tax at the point of withdrawal. It is therefore expected that many individuals will opt to withdraw their funds as part of a flexible drawdown product over a period of time to avoid having to pay tax at a higher marginal rate.

The costing also depends on estimates of the value individuals receive in exchange for annuities.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+535	+540	-130	-120
Welfare cap impact	0	-15	-30	-30	-30

The welfare cap impact of this measure is reflected in the aggregated line on 'Welfare Cap impacts' in the scorecard.

Areas of uncertainty

The main uncertainties in the costing relate to the number of people who will choose to sell their annuities, which in turn is likely to be impacted by the value individuals receive in exchange for annuities which is itself uncertain.

Income Tax: extending farmers' profits averaging period to 5 years

Measure description

This measure extends the period over which farmers and market gardeners are able to average their profits from two to five years. The extension to the averaging relief would apply from April 2016, following consultation with the industry.

The tax base

The tax base consists of all eligible farmers and market gardeners choosing to average their profits over two years under the current system. This is calculated using HMRC's Self-Assessment data.

Static costing

For the static cost, the tax due on two years of profits averaged under the existing system is compared to the tax that would be due if profits were averaged over five years. We assume that those currently choosing to average over two years would also choose to average over the new five year period.

Static Exchequer impact (£m)

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

Post-behavioural costing

Eligible individuals choosing not to average their profits under the current system may alter their behaviour, electing to average profits over five years if there is an observed tax benefit. An estimate of the proportion of additional individuals who may obtain a tax benefit from this extension is applied to the tax base to estimate the behavioural effect.

Post-behavioural Exchequer impact (£m)

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

Areas of uncertainty

The main uncertainties in the costing relate to the number of external events that may cause volatility in profits and the number of individuals who would choose to take advantage of averaging relief.

Film tax relief: increase the rate to 25 per cent for all qualifying expenditure

Measure description

This measure increases the rate of film tax relief (FTR) to 25 per cent for all qualifying expenditure, subject to state aid clearance, from the later of 1 April 2015 and the date of State aid clearance. Currently FTR is available at a rate of 25 per cent for the first £20 million of qualifying expenditure on a film, and a rate of 20 per cent for expenditure thereafter.

The tax base

The tax base is qualifying expenditure over £20 million on films currently claiming the FTR. This is estimated using historical HMRC data on films claiming the relief, projected forward from 2012-13 in line with past growth rates and using market price deflators.

Costing

The costing is calculated by calculating the difference between the pre- and post-measures tax regimes.

The costing includes a behavioural effect to account for an increase in the amount of investment in films.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-5	-30	-50	-55	-60

Areas of uncertainty

The main uncertainty for this costing is the size of the tax base and the behavioural response.

Changes to high-end television tax relief

Measure description

This measure modernises the cultural test for high-end television tax relief and reduces the minimum UK expenditure requirement from 25 per cent to 10 per cent, from 1 April 2015.

The tax base

The tax base is the amount of additional TV production expenditure in the UK that qualifies for the relief as a result of these changes.

This is estimated using historical industry data and HMRC operational expertise.

Costing

The costing is estimated by calculating the difference between the pre- and post-measures tax regimes.

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

Exchequer impact (£m)

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

Areas of uncertainty

The main uncertainty for this costing is the size of the tax base and the behavioural response.

Orchestra tax relief

Measure description

This measure provides a new corporation tax relief for orchestras. The relief will be available to eligible companies from April 2016 at a rate of 25 per cent on qualifying expenditure.

The tax base

The tax base is an estimate of the qualifying expenditure of professional orchestras based on data from the Association of British Orchestras and the Charity Commission Register from 2012-13.

Costing

The costing is calculated by applying the rate of the relief to the tax base.

The costing includes a behavioural effect to account for an increase in the amount of orchestras' qualifying expenditure.

Exchequer impact (£m)

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

Areas of uncertainty

The main uncertainty for this costing is the size of the tax base and the behavioural response.

Venture Capital Schemes: qualifying criteria

Measure description

This measure introduces new qualifying rules for companies receiving investment through the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs). The measure will also smooth the interaction between the schemes by removing the requirement that companies spend 70 per cent of their Seed Enterprise Investment Scheme (SEIS) investment before EIS/VCT funding can be raised.

The measure will be effective from April 2015.

The tax base

The tax base is the amount of investment raised through the EIS, SEIS and VCT. This was estimated using HMRC administrative data collected during the administration of the scheme.

Costing

The costing is calculated by estimating the number of firms that will be impacted by the changes in limits and the average amount of investment.

Exchequer impact (£m)

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

Areas of uncertainty

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

Enterprise Zones

Measure description

This measure will allow businesses to be able to claim 100 per cent enhanced capital allowances (ECAs) on qualifying expenditure in designated Enterprise Zones. The locations for these Enterprise Zones are:

- Tees Valley (Prairie)
- Leeds
- Plymouth
- Blackpool

These businesses would otherwise receive main rate (18 per cent) or special rate (8 per cent) capital allowances. This measure will be effective from April 2015 to March 2020.

The tax base

The tax base is the total amount of capital investment in the enterprise zone. This has been estimated using data from Local Enterprise Partnerships (LEPs).

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)

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

Areas of uncertainty

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

Employment Intermediaries: travel and subsistence (umbrella companies)

Measure description

Autumn Statement 2014 announced that the government would review the growing use of overarching contracts of employment that allow some temporary workers and their employers to benefit from tax relief for home-to-work travel expenses, relief not generally available to other workers.

This measure will remove tax relief for travel and subsistence for workers engaged through an employment intermediary, such as an umbrella company or personal service company, and under the supervision, direction and control of the end user. The policy will come into effect from 2016-17.

The tax base

The tax base is the relief for travel and subsistence expenses on home to work travel of workers employed on overarching contracts (OACs), or employed through personal service companies (PSCs) operating under IR35. The majority of workers on OACs are employed by umbrella companies. The tax base is estimated from HMRC PAYE, National Insurance & Self-Assessment administrative data.

Costing

The costing is calculated by applying the pre- and post-measure tax regimes to the tax base described above. The costing makes assumptions as to the number of umbrella company employees (and agency employees) who move to PSCs following the introduction of the policy.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+155	+175	+160	+145

Areas of uncertainty

The main uncertainties in the costing relate to the number of employees who might move to PSCs following the introduction of the policy and the average travel expenses claimed by umbrella company employees, agency employees and PSCs operating under IR35.

Oil and gas: investment support

Measure description

This measure supports investment in North Sea oil and gas by:

- reducing the Supplementary Charge from 30 per cent to 20 per cent effective from 1 January 2015
- reducing the rate of Petroleum Revenue Tax from 50 per cent to 35 per cent effective for chargeable periods ending after 31 December 2015
- introducing a new basin-wide Investment Allowance set at 62.5 per cent of investment expenditure, which will be effective for expenditure occurring on or after 1 April 2015

The Investment Allowance will be generated at an amount equal to 62.5 per cent of investment expenditure incurred in a field and needs to be activated by production income from the field to which it relates. It is then available to set off against a company's adjusted ring fence profits chargeable to the Supplementary Charge.

This measure is designed to encourage investment in the exploration, development and production of oil and gas projects.

The tax base

The tax base comprises taxable 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 using survey information provided by operating companies and the Office for Budgetary Responsibility's forecasts for key determinants such as production, expenditure and oil and gas prices.

Static costing

The static costing is calculated by applying the pre and post-measures tax regime to the tax base outlined above.

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-225	-400	-370	-370	-345

Post-behavioural costing

A behavioural adjustment has been made to account for the expected increase in investment and production levels in the North Sea, which will generate additional Exchequer yield.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact (total)	-230	-395	-305	-285	-85

Areas of uncertainty

This costing is highly sensitive to assumptions around future oil and gas prices and the size of the behavioural response from oil and gas companies. A significant shift in the oil price, or on production and investment levels, would have a substantial impact on both the costs and benefits of this measure.

Bank Levy: increase to 0.21 per cent

Measure description

The Bank Levy was introduced with effect from 1 January 2011. This measure increases the effective full rate of the Bank Levy from 1 April 2015 onwards from 0.156 per cent to 0.21 per cent. A proportionate increase will be made to the half rate, also with effect from 1 April 2015. The full rates are shown in the table below.

Bank Levy rate (per cent)

The following rate applies from 1 April 2015 onwards:

	2015	2016	2017	2018	2019
Bank Levy rate	0.21%	0.21%	0.21%	0.21%	0.21%

The tax base

The Bank Levy applies to the global balance sheets of UK banking groups, plus the aggregated liabilities of branches and subsidiaries of overseas banks operating in the UK. The tax base is represented by the OBR's forecast for the Bank Levy.

Costing

The costing is calculated by applying the pre- and post-measure Bank Levy rates to the tax base described above. A small behavioural response is applied.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	+685	+925	+925	+920	+920

Areas of uncertainty

The main uncertainties are around the tax base for the Bank Levy and the behavioural response.

Corporation Tax: bank compensation payments

Measure description

The measure will make banks' customer compensation expenses non-deductible for corporation tax purposes. The government will consult on the detailed design of the change and how it can be appropriately targeted. The change will then be legislated in a future Finance Bill.

The tax base

The tax base is the expected future expenses that banks will incur in order to compensate customers. This has been estimated using industry data and HMRC operational intelligence on large UK banking groups.

Costing

The costing is estimated by deriving the difference between the pre- and post-measures tax regimes.

The costing accounts for a number of behavioural responses that could affect the overall yield.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	+150	+260	+225	+180	+150

Areas of uncertainty

The main uncertainties in this costing are the size of the tax base and the behavioural responses by the affected banks.

Company car taxation: 3ppt increase in 2019-20

Measure description

This measure announces a 3 percentage point (ppt) increase in appropriate percentages for car benefit and car fuel benefit in 2019-20. Under this measure, appropriate percentages for cars with CO_2 emissions over 75g CO_2/km will be increased by 3ppt to a maximum of 37 per cent in 2019-20. The differential between the 0-50 and 51-75 gCO_2/km bands and between the 51-75 and 76-94 gCO_2/km bands will increase from the previously announced 2 percentage points to 3 percentage points.

The tax base

The tax base is estimated using data on taxable benefits in kind reported by employers to HMRC. The value of the car benefit tax base is projected using a range of assumptions, including increasing car prices in line with the OBR's Consumer Price Index (CPI) and projected reductions in CO_2 emissions.

Static costing

The costing is calculated by applying pre- and post-measure regimes to the tax base described above, taking into account the distribution of tax rates over company cars of different CO_2 emission levels.

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	0	0	0	+355

Post-behavioural costing

Above RPI increases in the fuel benefit charge are assumed to trigger reductions in take-up. Exchequer yield is adjusted to take into account additional employees leaving fuel benefit charge in response to this measure.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact (total)	0	0	0	0	+340

Areas of uncertainty

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

Heavy Goods Vehicles: freeze VED and the Road User Levy

Measure description

This measure freezes vehicle excise duty (VED) rates and road user levy on heavy goods vehicles (HGVs) and other selected vehicles, such as buses, in 2015-16. These rates were forecast to increases by RPI.

The tax base

The tax base comprises estimates of all HGVs, buses and other selected vehicles which are declared eligible for road use in the year 2015-16. This is based on data on the stock of vehicles from the Department for Transport (DfT) and the Driver and Vehicle Licensing Agency (DVLA). In line with the VED revenue forecast model and DfT assumptions, estimated net annual increases in the numbers of vehicles are used to forecast future stock levels.

Costing

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

Exchequer impact (£m)

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

Aggregates Levy: freeze in 2015-16

Measure description

This measure freezes the aggregates levy at £2 for 2015-16 rather than increase the rate by inflation, to £2.02 per tonne.

The tax base

The tax base is the tonnage of rock, sand and gravel commercially exploited in the UK. There are various exemptions and reliefs for materials not extracted for use as aggregate. The tax base is estimated from OBR forecasts of aggregates output. This forecast is dependent upon the lagged duty rate, seasonal variation and a time trend. For 2015-16 the tax base is estimated to be 135 million tonnes.

Costing

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

Exchequer impact (£m)

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

Areas of uncertainty

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

Capital Allowances: energy and water efficient technologies

Measure description

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

The tax base

The tax base is the total change in qualifying expenditure for all of the affected technologies and products, and is estimated using information from the Department of Energy and Climate Change and the Department for the Environment, Food and Rural Affairs.

Costing

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

Exchequer impact (£m)

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

Areas of uncertainty

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

VAT: foreign branches

Measure description

The measure will mean that the VAT incurred supporting all foreign branches of UK businesses will become deductible by reference to the UK VAT recovery rate. Currently VAT on UK overhead costs incurred supporting EU and non-EU branches is reclaimable according to the proportion that their activities are taxable. This change will mostly affect financial institutions such as banks and insurers with branches within and outside the EU. The measure is effective from 1 August 2015.

The cost base

The tax base is estimated using (commercially sensitive) data from an internal HMRC survey. The survey investigated the VAT on overhead costs that was incurred supporting EU and non-EU branches, and it researched the UK recovery rates by which these costs will now become deductible. The sample is scaled up to whole-of-market, giving around £240m of VAT incurred supporting EU and non-EU branches. This is grown in line with the OBR's forecast for the Consumer Price Index.

Costing

The costing is estimated by applying the pre- and post-tax regime to the tax base. We assume a low level of bank restructuring as a result of these changes.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	+25	+95	+90	+85	+90

Areas of uncertainty:

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

Corporation Tax: contrived loss arrangements

Measure description

This measure will prevent companies from obtaining a tax advantage by entering contrived arrangements to convert brought forward reliefs into more versatile in-year deductions. The measure covers carried forward corporation tax trading losses, non-trading loan relationship deficits, and management expenses. Where a company enters into arrangements meeting the conditions it will be unable to use these brought forward reliefs against profits created in the relevant company. This measure will come into effect from announcement at Budget 2015.

The tax base

The tax base is estimated using HMRC administrative data which is then grown in line with the OBR forecast for nominal GDP.

Costing

The static costing is calculated by applying the pre- and post- measure tax regimes to the tax base outlined above. Behavioural effects have been incorporated to account for the fact that some groups will engage in alternative tax planning.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	+95	+170	+170	+150	+130

Areas of uncertainty

The main uncertainty for this costing is the behavioural effect and the tax base. Anti-avoidance measures are inherently more uncertain than changes in tax rates or thresholds because they are based on the amount of tax avoided and HMRC data is less readily available. In addition this anti-avoidance measure targets a specific subset of taxpayers whose behavioural response is therefore more difficult to predict.

Evasion: Common Reporting Standard

Measure description

The measure introduces an operational response by HMRC to the adoption of the Common Reporting Standard (CRS). Under the CRS, HMRC will receive detail on the financial accounts held offshore by UK taxpayers in over 90 jurisdictions. This information will allow HMRC to identify those who have not declared all their offshore income and gains and pursue individuals to pay the amount of UK tax that is due. The measure also introduces a strengthened disclosure facility which will allow people to come forward to disclose their tax affairs before HMRC receives CRS data in 2017.

The tax base

The tax base is the number of individuals with offshore financial interests and their associated assets and income on which UK tax is due. This is estimated using data from the European Union Savings Directive (EUSD), data from previous HMRC compliance interventions and HMRC administrative data.

Costing

The yield is estimated in two parts: the first covers a disclosure facility that will run before the CRS data is received by HMRC; the second covers operational activity once the data has been received. The disclosure facility element is based on the number of cases that will come forward and the typical yield from each. The compliance activity element is based on the number of operational cases that HMRC expects to work and the typical yield from each.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+90	+270	+75	+130

Areas of uncertainty

The main uncertainty for this costing is the number of people who will come forward to disclose. However, we would expect a strong impact as understanding increases over time of the amount and type of information that will flow under the CRS, including as a result of direct communication by UK financial institutions, and of the possible serious consequences of failure to disclose.

Capital Gains Tax: contrived structures

Measure description

This measure will prevent claims for capital gains tax (CGT) entrepreneurs' relief (ER) on shares in a company that is not a trading company in its own right. This measure affects disposals on and after 18 March 2015.

The tax base

The tax base comprises of capital gains on disposal of shares eligible for ER but in companies that are not trading companies in their own right.

Costing

The costing is calculated by applying the pre-measure and post-measure tax regimes to the tax base described above. The affected tax base would be subject to the headline CGT rate on disposal of shares, from the date of implementation onwards, regardless of the period over which the gains had accrued. The costing incorporates a behavioural response to take account of individuals using alternative routes for minimising their CGT liabilities.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	neg	+25	+25	+25	+25

Areas of uncertainty

The main uncertainty in the costing relates to the size of the tax base and the rate of attrition.

Capital gains tax: associated disposal rules

Measure description

'Associated disposal' rules allow capital gains tax (CGT) entrepreneurs' relief (ER) on the disposal of personal assets used in a company's or a partnership's business when the disposal is associated with a partial or full withdrawal from the company or business.

Previously, there has been no minimum requirement as to the size of this withdrawal. This measure ensures that at least a 5 per cent stake in the business must be disposed of by a claimant in order to benefit from ER on an associated disposal. This measure affects disposals on and after 18 March 2015.

The tax base

The tax base comprises of capital gains on disposal of personal assets (where the disposal is associated with a sale of company shares or partnership interest of less than 5 per cent), currently eligible for ER. This is estimated using OBR CGT forecasts and HMRC Self-Assessment data.

Costing

The costing is calculated by applying the pre-measure and post-measure tax regimes to the tax base described above. The costing incorporates a behavioural response to take account of individuals using alternative routes for minimising their CGT liabilities. There may be some deferral of disposal of personal assets on which the measure will apply.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	neg	+20	+20	+20	+20

Areas of uncertainty

The main uncertainty in the costing relates to the size of the tax base and the rate of attrition

Tobacco: enforcement

Measure description

Raw tobacco which is not yet in a smoke-able form is not subject to any excise duty and the associated movement controls within the UK. This measure introduces a registration scheme for raw tobacco users and dealers including sanctions designed to minimise the risk of evasion of Tobacco Products Duty.

The measure will be effective from December 2016.

The tax base

The tax base is the size of the market for illicit raw tobacco. This is estimated using HMRC administrative data (on imports) and knowledge gained from HMRC's enforcement and compliance activity (on seizures).

Costing

The costing is the amount of tax evasion which is prevented by the introduction and policing of the raw tobacco registration scheme.

An adjustment is made for possible behavioural responses where some illicit trade still manages to evade the registration system, reflecting evidence of attrition in yield from previous anti-avoidance measures.

As illicit tobacco is substantially cheaper than duty paid tobacco, consumers face a price rise when illicit tobacco is removed from the market. Consumers can respond by reducing consumption, substituting to cross-border shopping or purchasing full price legitimate tobacco.

Exchequer impact (£m)

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

Areas of uncertainty

The main uncertainty for this costing is the size of the tax base and behavioural response to the policy change.

Accelerated Payments: extension

Measure description

This measure further widens the remit of accelerated payment (AP) legislation, introduced in the Finance Act 2014, following HMRC investigative work. It will be effective from May 2016.

The tax base

The tax base is an estimate of the identified additional amount of disputed tax (on top of the originally identified tax) involving individuals and SMEs 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)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+290	+175	+70	+20

Areas of uncertainty

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

Stamp Duty Land Tax (SDLT): property funds

Measure description

As announced at Autumn Statement 2014, this measure contains two proposals:

- a seeding relief for existing property portfolios transferring into a Property Authorised Investment Fund (PAIF) or Co-ownership Authorised Contractual Scheme (CoACS)
- changes to the SDLT rules for CoACSs so that SDLT does not arise from transactions in units

PAIFs are open ended investment companies introduced specifically for investment portfolios primarily comprising of property. There is an SDLT liability when a property portfolio is transferred into a new or empty PAIF, a process which is known as seeding, even if the economic ownership does not change. This measure stops this liability arising for the initial seeding of an existing property portfolio into a PAIF or CoACS.

CoACSs are collective investment schemes where current legislation could suggest a potential liability for SDLT every time there is a change in the ownership of units in the scheme (i.e. when investors redeem their units or there is new investment in the fund). This measure stops this liability arising.

These measures are expected to be legislated for in a future Finance Bill.

The tax base

The tax base is the value of property assets expected to be moved into PAIFs and CoACSs as a result of the measure. The tax base is estimated using data from the Association of Real Estate Funds. The tax base is adjusted using data on the average annual growth rate of property funds and the OBR commercial property price determinant.

Costing

The costing is calculated by applying the pre- and post- measure tax regimes to the tax base outlined above. There is no pre-behavioural costing impact as choosing to move assets is a behavioural response to the measure. The main behavioural response is the movement of the assets outlined in the tax base into PAIFs and CoACSs. The cost of the policy arises from a lower rate of churn for properties in the funds compared with the structures they were held in previously (mainly Defined Benefit pension schemes and life insurance schemes); over time this is offset by growth in related transactions as property funds grow in scale.

Exchequer impact (£m)

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

Areas of uncertainty:

The main uncertainty for this costing is the behavioural response to the policy change.

DWP Fraud and Error: strategic use of RTI to prevent fraud in pension credit and HB

Measure description

This measure will more effectively match data on the Housing Benefit and Pension Credit caseload to HMRC's Real Time Information (RTI) system to better detect and correct error relating to earnings and occupational pension payments. This will come into effect from April 2016.

The cost base

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

- National Statistics for fraud and error (F&E) 2013/14 (DWP) which includes a breakdown of the amount of benefit overpaid, by cause of overpayment
- Single Housing Benefit Extract (SHBE) which includes detailed information on all changes of circumstances processed and all overpayments detected by local authorities
- DWP debt management data which includes case-level management information on debt owed by customers with a detected overpayment on DWP benefits

Costing

The costing is estimated by establishing the volume of benefit adjustments that DWP and local authorities are expected to make each month as a result of the RTI match, based on the volumes they handled in a comparable measure. This is then multiplied by the average duration that these overpayments would be expected to continue for in the future. An adjustment is made to allow for the migration to Universal Credit.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	0	+15	+30	+35	+40

The Exchequer impact of this measure is reflected in the aggregated line on 'Welfare Cap impacts' in the scorecard.

Areas of uncertainty

The main uncertainties in the costing relate to the volume of new errors that will be identified each month by the RTI data match, and assumptions around the value and average duration of overpayments.

Restricting EEA jobseekers' access to Universal Credit

Measure description

This measure restricts access to Universal Credit for EEA migrants who are seeking to claim with a right to reside status in the UK as a 'jobseeker'.

The cost base

The pre-measure base is the caseload and expenditure on Universal Credit. This has been derived using Budget 2015 roll out assumptions for Universal Credit.

This measure is related to several other measures previously announced at Budget and Autumn Statement 2014.

Costing

This measure will introduce additional savings from certain out of work EEA migrants without recent employment or alternate rights to reside. The additional savings relate to the removal of EEA migrant jobseekers' residual entitlement to aspects of UC for up to 6 months. Currently they would be entitled to up to 3 months or 6 months with the child element – under the restrictions introduced from previous measures.

Exchequer impact (£m)

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

The Exchequer impact of this measure is reflected in the aggregated line on 'Welfare Cap impacts' in the scorecard.

Areas of uncertainty

The main uncertainties in the costing relate to the number of EEA migrants in the UK and their interaction with the labour market prior to and during a claim.

Waiting days in Universal Credit

Measure description

This measure will revise the implementation date for introducing 7 waiting days in Universal Credit, from 27 April 2015 to 1 July 2015. New benefit claimants will have to wait 7 days before becoming eligible for financial support.

The cost base

The cost base is estimated using DWP's Policy Simulation Model for Universal Credit. The cost base is consistent with OBR Budget 2015 forecast determinants.

Costing

The costing is estimated by calculating the difference between the pre- and post-measure costings of Universal Credit.

The original costing of the policy was based on an implementation date of 27 April 2015. It assumed that, except in certain specified circumstances, from 27 April 2015, new awards to Universal Credit for claimants who would be subject to conditionality are reduced. The amount of the reduction was assumed to be the average amount of Universal Credit claimed per claimant per week, as 7 waiting days equate to one week of a claim.

This new costing estimates the impact of moving the start date to 1 July 2015. It identifies the number of new awards to Universal Credit who would have served waiting days between 27 April 2015 and 1 July 2015. Under the measure these claimants will no longer be subject to waiting days.

Exchequer impact (£m)

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

The Exchequer impact of this measure is reflected in the aggregated line on 'Welfare Cap impacts' in the scorecard.

Implementation of Strengthen Self-Employed Test for Working Tax Credit

Measure description

Autumn Statement 2014 announced that from April 2015 Working Tax Credit (WTC) claimants who use their self-employment to meet the qualifying remunerative work (QRW) test would be required to register their self-employment and provide a Unique Tax Reference (UTR). This measure reflects that this policy will now be implemented from April 2016.

The tax base

The tax base is an estimate of self-employed WTC claimants who do not have a UTR.

Static costing

The costing is the difference between the tax credits savings that were due to be achieved if the measure was implemented in April 2016 instead of April 2015.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20
Exchequer impact	-40	+35	0	0	0

The Exchequer impact of this measure is reflected in the aggregated line on 'Welfare Cap impacts' in the scorecard.

Areas of uncertainty

The main uncertainty relates to the amount of the increase in the number of WTC claimants registering for self-assessment.

Affordable housing: Housing Benefit impact

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 £960m per annum. There will be a small increase in Housing Benefit where in some cases 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)

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

The Exchequer impact of this measure is reflected in the aggregated line on 'Welfare Cap impacts' in the scorecard.

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.

A Indexation in the public finance forecast baseline

The following table shows the indexation assumptions that have been included in the public finance forecast baseline, including all pre-announcements, for Budget 2015 policy costings. Unless otherwise stated, changes are assumed to take place in April each year and tax rates are assumed to be fixed.

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2015-16 onwards
Income tax	Personal allowance[1]	Increase by CPI from 2015-16, rounded up to the nearest £10.	Personal allowance will increase to £10,600 from April 2015.
	Basic Rate Limit	CPI, increase rounded up to the nearest £100.	Higher Rate Threshold, which is the sum of the personal allowance and the basic rate limit, will increase by inflation in 2015-16.
	Starting rate limit for savings income	RPI, increase rounded up to the nearest £10 until 2015-16, CPI thereafter.	The starting rate limit will rise to £5,000 in 2015/16, and by CPI thereafter.
	Threshold for additional rate	Fixed at £150,000.	
	Income limit for tapered withdrawal of personal allowances	Fixed at £100,000.	
	Pensions income tax relief annual allowance	Fixed at £40,000.	Fixed at £40,000.
	Pensions income tax relief lifetime allowance	Fixed at £1.25 million.	
	Individual Savings Accounts limits for cash and equities	CPI rounded to the nearest £120.	
	Threshold for Child Benefit income tax charge	Fixed at £50,000	
	Marriage tax allowance	Uprated in proportion to the personal allowance.	
NICs	Lower earnings limit	CPI rounded down to the nearest £1pw.	
	Primary Threshold/ Lower Profits Limit	CPI rounded down to the nearest £1pw/£5pa.	

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

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2015-16 onwards
	Secondary Threshold	RPI, increase rounded to the nearest £1pw until 2015-16; CPI thereafter.	
	Upper Earnings Limit/ Upper Profits Limit	Aligned with income tax Higher Rate Threshold.	Aligned with income tax Higher Rate Threshold.
	Small Earnings Exception	CPI, rounded up to the nearest £10pa.	
	Contribution rates	Fixed percentage, apart from Class 2 and Class 3 weekly rates which rise by CPI, rounded to the nearest 5p.	
	Employment Allowance	Fixed at £2,000.	
Capital gains tax	Main annual exempt amount	CPI, rounded up to the nearest £100.	Increase by 1% in 2014-15 and 2015-16.
	Annual exempt amount for trustees	Half of the main annual exempt amount	Half of the main annual exempt amount
	Lifetime allowance for entrepreneurs' relief	Fixed at £10 million.	
Inheritance tax	Nil rate band	CPI rounded up to the nearest £1,000.	Freeze on the nil-rate band until April 2018 (freeze at £325,000).
Disability Benefits: Disability Living Allowance, Attendance Allowance, Carer's Allowance, ESA support group element	All main rates	CPI.	

Forecast area	Main elements	Default indexation assumed in the baseline	Pre-announced policy changes from 2015-16 onwards
Working-age social security benefits and payments: Jobseeker's Allowance, Income Support, Employment and Support Allowance, Housing Benefit; Incapacity Benefit; Statutory Maternity, Paternity, Adoption and Sick Pay; Maternity Allowance	All main rates	Generally [September's] CPI.	Working-age social security benefit personal allowances; ESA WRAG component; all statutory payments; maternity allowance to be up-rated at 1% for three years from 2013-14.
Basic State Pension	All categories	Higher of earnings, CPI or 2.5%.	
Additional State Pension	All elements	CPI.	
Pension Credit	Guarantee Credit	Earnings.	Standard minimum guarantee increased in April 2015 by 1.9%.
	Savings Credit	Maximum Savings Credit award frozen in cash terms for 4 years from April 2011. It is then frozen in real terms.	Savings credit threshold increased by 5.1% in April 2015, with an associated reduction in the Maximum Savings Credit.
Child Tax Credit	Family element	Fixed at £545 per year.	
	Child element	CPI, rounded up to the nearest £5.	Uprated by 1 per cent for 3 years from 2013-14.
	Disabled and enhanced disabled child elements	CPI, rounded up to the nearest £5.	
Working Tax Credit	All award elements	CPI, rounded up to the nearest £5.	Basic, 30 hour elements uprated by 1 per cent in 2014-15 and 2015-16.
	Maximum eligible childcare costs (for 1 and 2+ children)	Couple and lone parent elements uprated by 1 per cent for 3 years from 2013-14.	
Child Benefit	Eldest (or only) child and subsequent children amounts	Fixed at £175 and £300 per week.	

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2015-16 onwards
Corporation tax	Marginal relief lower limit	Fixed at £300,000.	In April 2015 the main rate of corporation tax will be cut to 20% - the same level as the current small profits rate. At that point the main rate and small profits rate will be unified, and the marginal relief system abolished, giving the UK a single headline rate of corporation tax.
	Marginal relief upper limit	Fixed at £1.5 million profit.	
	Small profits rate	Fixed at latest announced rate.	
Stamp duties	Stamp duty land tax thresholds for residential property	Fixed at £125,000, £250,000, £925,000 and £1,500,000	
Climate Change Levy	Levy amount	RPI.	
Aggregates Levy	Levy amount	RPI.	
Landfill tax	Tax rates	RPI, rounded to the nearest 5 pence.	Both the standard and the lower rates of Landfill Tax would increase with the RPI (to the nearest 5 pence) in 2015-16.
Vehicle Excise Duty	Duty rates	RPI, rounded to the nearest £1 or £5.	
Air Passenger Duty	Duty rates	RPI, rounded to the nearest £1.	
Tobacco Duties	Duty rates on all tobacco products	RPI.	Increase by 2 percentage points above RPI every year until the end of the next Parliament.
Alcohol Duties	Beer, wine, spirits and cider duties.	RPI.	
Fuel Duties	Duty rates on petrol and diesel	RPI	Frozen fuel duty until the end of parliament. No scheduled RPI increases until Sept 2015.
	Duty rate on liquefied petroleum gas (LPG)	RPI	Taxed at approximately 40p per litre less than petrol and diesel. Increase rate by 1p per litre above RPI every year until March 2024 (only when fuel duty is not frozen)
	Duty rate on compressed natural gas (CNG), Liquid Natural Gas (LNG) and biomethane	RPI	Taxed at approximately 40p per litre less than petrol and diesel until March 2024.
VAT	VAT registration threshold	RPI, rounded to the nearest £1,000.	

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2015-16 onwards
Gaming Duty	Gross gaming yield bands	RPI, rounded to the nearest £500.	
Business Rates	Business rates multiplier	RPI, rounded to the nearest 3 significant figures.	Increase capped at 2% for April 2015.

Office for
**Budget
Responsibility**

Certification of policy costings

B Budget 2015 policy measures

Overview

B.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. This is an iterative process where individual measures can go through several stages of scrutiny. After this process is complete, the Government chooses which measures to implement and which costings to include in its table of policy decisions. We choose whether to certify the costings as 'reasonable and central', and whether to include them – or alternative costings – in our forecast.

B.2 In this Budget, we have certified all the costings of tax and annually managed expenditure (AME) measures that appear in the Government's policy decisions table as reasonable and central. Table B.1 reproduces HM Treasury's table of policy decisions, with further details set out in Chapter 4 of the *EFO* and in the Treasury's *Budget 2015 policy costings document*, which summarises the methodologies used to produce each costing and provides some information on the main areas of uncertainty within each.

B.3 The policy costings scrutiny process was particularly difficult for this Budget as we were not given details of costings for a large proportion of significant policy measures until just before our deadlines.

Uncertainty

B.4 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 our December 2014 *EFO*, we 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.

B.5 Under our new approach, we assign each certified costing a subjective uncertainty rating, which is shown alongside the relevant costing in Table B.1. These ratings 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 policy change. We take into account the relative importance of each source of uncertainty for each costing. The full breakdown that underpins each rating is available on our website.

Table B.1: HM Treasury table of Budget policy decisions and OBR assessment of the uncertainty of costings

		Head	£ million					Uncertainty
			2015-16	2016-17	2017-18	2018-19	2019-20	
Personal tax								
1	Personal Allowance: increase to £10,800 in 2016-17 and to £11,000 in 2017-18 with full gains to higher rate taxpayers	Tax	0	-960	-1,480	-1,585	-1,680	Medium
Savings and pensions								
2	Savings tax: allowance and ISA flexibility	Tax	-15	-1,030	-565	-640	-765	Medium-high
3	Help to Buy: ISA	Spend	-45	*-230*	*-415*	*-640*	*-835*	Very high
4	Annuities: secondary market	Tax	0	+535	+540	-130	-120	Very high
5	NS&I bonds for people aged 65 and over: extension	Spend	-80	-	-	-	-	Medium-high
6	Pensions guidance: extending availability	Spend	-20	-	-	-	-	N/A
7	Pensions: lifetime allowance to £1m from 2016-17, and index with inflation from 2018-19	Tax	+60	+300	+420	+550	+590	Medium-high
Duties								
8	Fuel Duty: cancel September 2015 RPI increase	Tax	-140	-240	-245	-250	-250	Medium-low
9	Alcohol Duty: 1p off a pint of beer and 2% off cider duty	Tax	-85	-80	-85	-85	-85	Medium-low
10	Alcohol Duty: reduce spirits duty by 2%, and freeze wine duty	Tax	-100	-95	-100	-100	-105	Medium-low
Investment and growth								
11	Oil and gas: investment allowance and 10% cut to Supplementary Charge	Tax	-230	-270	-190	-200	-75	Very high
12	Oil and gas: 15% cut to Petroleum Revenue Tax	Tax	0	-125	-115	-85	-10	Very high
13	Oil and gas: support for seismic surveys	Spend	-20	-	-	-	-	N/A
14	Energy intensive industries: bring forward compensation for Feed-in Tariffs	Spend	-25	-	-	-	-	N/A
15	Exports and investment: UKTI China and trade missions	Spend	-15	-	-	-	-	N/A
16	Regional growth	Spend	-15	-	-	-	-	N/A
17	Creative industries: extend support	Spend	-5	-	-	-	-	Medium-high
18	Support for technological innovation	Spend	-20	-	-	-	-	N/A
19	Telecommunications	Spend	-15	-	-	-	-	N/A
20	Venture capital schemes: qualifying criteria	Tax	0	-5	-5	-15	-10	Medium
21	Enterprise Zones	Tax	*	*	-5	-5	-5	Low
22	Financial transactions adjustment[1]	Spend	+490	-	-	-	-	N/A

Fairness, evasion and avoidance								
23	Bank Levy: increase to 0.21%	Tax	+685	+925	+925	+920	+920	Medium
24	Corporation Tax: bank compensation payments	Tax	+150	+260	+225	+180	+150	High
25	Evasion: Common Reporting Standard	Tax	-5	+90	+270	+75	+130	Very high
26	Employment intermediaries: travel and subsistence (umbrella companies)	Tax	0	+155	+175	+160	+145	Medium-high
27	VAT: foreign branches	Tax	+25	+95	+90	+85	+90	Medium-high
28	Corporation Tax: contrived loss arrangements	Tax	+95	+170	+170	+150	+130	High
29	Capital Gains Tax: contrived ownership arrangements	Tax	*	+45	+45	+45	+45	High
30	Tobacco: enforcement	Tax	0	+5	+10	+10	+10	Medium-high
31	Accelerated Payments: extension	Tax	0	+290	+175	+70	+20	Medium-high
32	Total fiscal impact of welfare cap measures[2]	Spend	-50	-	-	-	-	Medium
Health, education and security								
33	Mental health	Spend	-305	*-315*	*-325*	*-310*	*-310*	N/A
34	Health innovation	Spend	-10	-	-	-	-	N/A
35	Counter-terrorism and security	Spend	-25	-	-	-	-	N/A
36	Free school meals: small schools	Spend	-20	-	-	-	-	N/A
Transport and environment								
37	Company car taxation: 3 ppt increase in 2019-20	Tax	0	0	0	0	+340	Medium-high
38	Heavy Goods Vehicles: freeze VED and the Road User Levy	Tax	*	*	*	-5	-5	Low
39	Aggregates Levy: freeze in 2015-16	Tax	-5	-5	-5	-5	-5	Low
40	Capital allowances: energy and water efficient technologies	Tax	0	+5	+15	+10	+10	Medium-low
41	Income Tax: extending farmers' profits averaging period to 5 years	Tax	0	-10	-30	-30	-30	Medium
Previously announced								
42	Stamp Duty Land Tax: property funds	Tax	-10	-15	-10	-5	-5	Medium-high
43	Guarantees income	Spend	+500	-	-	-	-	Low
	TOTAL POLICY DECISIONS		**+745**	**+45**	**+230**	**-885**	**-570**	
	Total spending policy decisions		+295	0	0	0	0	
	Total tax policy decisions		+450	+45	+230	-885	-570	

** Negligible*

Note: Costings reflect the OBR's latest economic and fiscal determinants.

Note: 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.

[1] This is a neutral reclassification from PSGI to Financial Transactions. See Table 2.2 for offsetting adjustment.

[2] Total fiscal impact of welfare policy decisions, including DWP DEL funding. See Budget 2015: policy costings for further detail on policy decisions, and Budget 2015, Chapter 1 for an update on spending within the welfare cap.

B.6 Table B.2 shows the detailed criteria and applies them to a sample policy measure from this Budget: 'Fuel duty: cancel September 2015 RPI increase'. This is estimated to cost around £250 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 data, with the least important being behaviour. The data used to estimate this measure are high quality HMRC administrative data on fuel clearances, so we consider this to be a 'low' source of uncertainty. The likely behavioural response is well documented in external academic papers and in HMRC research: lower post-tax fuel prices would be expected to increase consumption. But this has only a relatively small impact on the costing, so we deem this a 'medium-low' source of uncertainty. The modelling is based on reliable HMRC forecasting models. So we regard this as a 'low' source of uncertainty. Taking all these judgements into account, we have assigned the costing an overall uncertainty rating of 'medium-low'.

Table B.2: Example of assigning uncertainty rating criteria: 'Fuel duty: cancel September 2015 RPI increase'

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	Medium	Low	High
Overall		**Medium-low**	

B.7 In this Budget, we have judged eight measures in the policy decisions table to have 'high' or 'very high' uncertainty around the central costing. These represent 25 per cent of the measures in the Budget by number and 27 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 £7.2 billion in total over the forecast period. The reasons we consider the fiscal effects of these measures to be particularly uncertain include:

- **annuities: secondary market:** This costing receives a 'very high' uncertainty rating. The measure will allow current annuity holders to sell their annuity for a lump sum, which will attract an upfront tax charge. The yield over the forecast period – and the resulting costs in the longer term – depends on two forms of take-up: annuity holders wishing to sell their income stream and prospective buyers wishing to purchase that flow of income for an upfront cash sum. These assumptions come together via a highly uncertain assumption about the discount buyers are likely to apply given the likely informational asymmetries in the transaction and the lack of such a market at present. Any estimates on how potential buyers will view the risk associated with this product and set their preferred discounts are particularly uncertain. This measure is also unusual in the sense that it is not impossible that potential buyers will view this as a risk that cannot be priced, in which case no secondary market would develop and the effect of the policy would be nil. There is also uncertainty about how sales of annuities will affect benefit payments, especially in respect of the effect of DWP's 'deprivation of capital' rules and the Government's consultation, which asks if annuities should be sold by those receiving means-tested benefits;

- **oil and gas: investment allowance and 10 per cent cut to supplementary charge** and **15 per cent cut to petroleum revenue tax:** This comprises two measures that we have considered together as they collectively alter the post-tax returns from oil and gas extraction. The measures receive a 'very high' uncertainty rating. They are expected to encourage investment and production in the North Sea, offsetting some of the effect of the fall in oil prices over the past year. The post-behavioural cost is based on uncertain assumptions about the investment and production response of oil and gas companies – a key source of uncertainty in our offshore corporation tax receipts and PRT forecasts more generally. We estimate that these measures will increase production by around 15 per cent compared to the pre-measures baseline. If the production response is stronger or weaker than expected – or the oil price moves substantially again – then the cost of these measures and their wider impact on the economy could significantly different. There are also data uncertainties, since the precise cost of the measures will depend on the specific effects at individual field and company level. The modelling is also complex and important for the costing;

- **evasion: common reporting standard:** This costing receives a 'very high' uncertainty rating. The common reporting standard is designed to facilitate information sharing on non-residents' financial interests in a given jurisdiction with other signatory jurisdictions where they are resident. The measure aims to capture the effect of the UK's adoption of this standard and the HMRC operational response. 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 assets held abroad that will be captured by the new standard. There is also considerable uncertainty about how individuals will respond to HMRC compliance interventions, be they targeted or more general. As ever, predicting the behaviour of individuals who are already actively changing behaviour in response to the tax system is particularly challenging;

- **Help to Buy: ISA:** This costing receives a 'very high' uncertainty rating. The Help to Buy: ISA will involve the Government offering financial support to first-time buyers who contribute to a special account. There is considerable uncertainty around the behavioural impact – in particular the take-up within the target population;

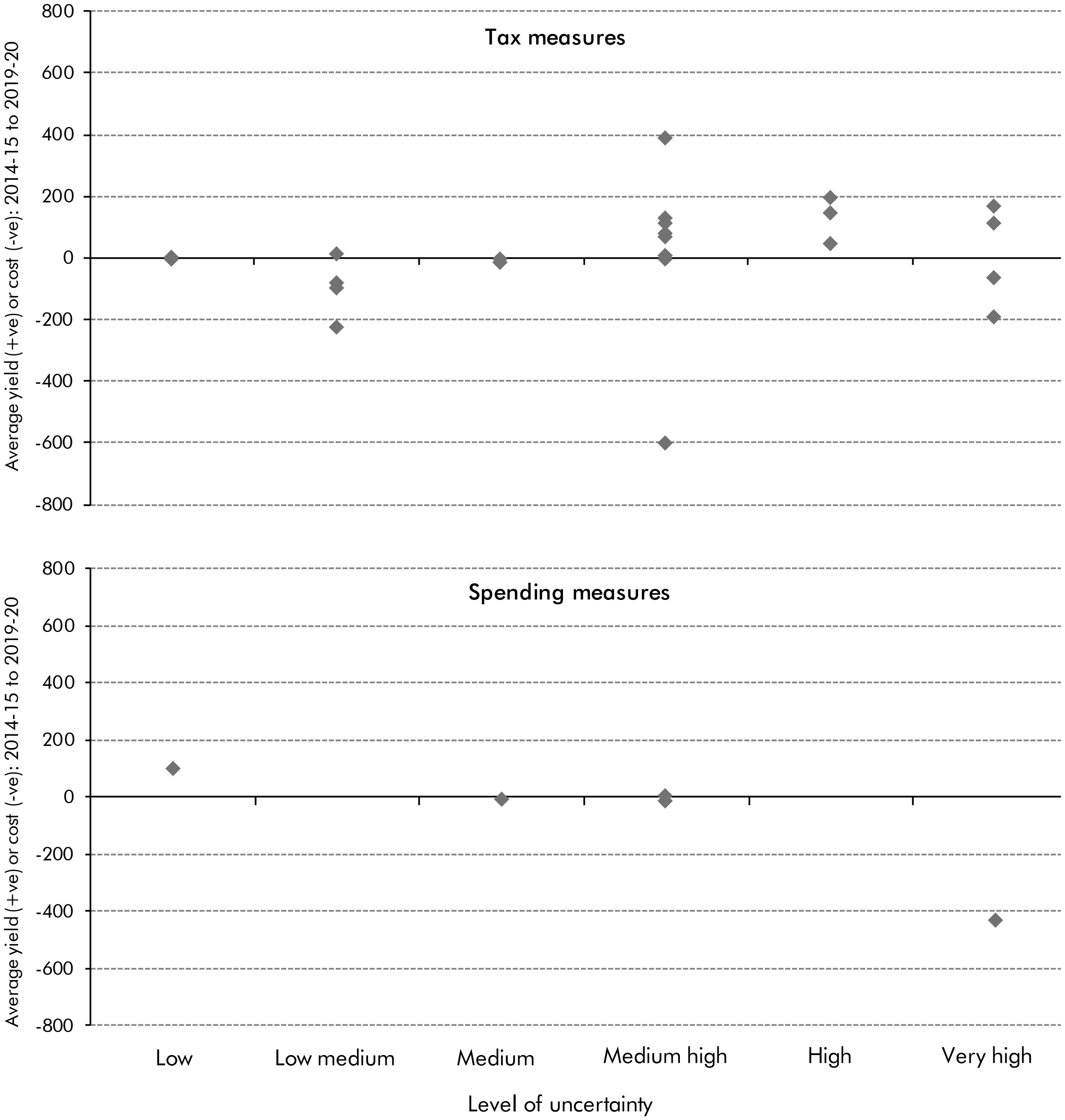
- **corporation tax: bank compensation payments:** This costing receives a 'high' uncertainty rating. The measure prevents banks from obtaining tax deductions for costs in respect of compensation to customers in relation to the provision of financial services – for example, the large payouts in recent years related to payment protection insurance mis-selling. The costing relies on projecting a particularly uncertain tax base: the future misconduct provisions and compensation payments made by banks. The overall yield is very sensitive to the assumed path of such payments over the forecast period. It is also sensitive to an element of our corporation tax forecast that is itself highly uncertain: the point at which major banks have exhausted stocks of accumulated losses and return to taxpaying status;

- **corporation tax: contrived loss arrangements:** This costing receives a 'high' uncertainty rating. This measure will prevent the use of contrived arrangements to access 'trapped' losses and create versatile in-year relief. The main uncertainty in this costing is with the tax base. It was constructed based on HMRC operational intelligence on the level of non-trading losses, but no data were available to estimate the level of trading losses using these arrangements, so uncertain assumptions had to be made; and

- **capital gains tax: contrived ownership arrangements:** This costing receives a 'high' uncertainty rating. These measures aim to limit use of entrepreneur's relief to reduce CGT liabilities. HMRC does not hold detailed administrative data on the use of the specific arrangements that are to be limited. Again, this required the tax base to be generated using uncertain assumptions on the level of use of such schemes. The behavioural response of affected taxpayers to these measures is also very uncertain.

B.8 We have judged 20 measures to have 'low-medium' or 'high-medium' uncertainty around the central costing, with a further four costings having 'low' uncertainty. That means that 63 per cent of the Budget measures have been placed in the medium range (71 per cent by absolute value) and 13 per cent have been rated as low uncertainty (just 2 per cent by absolute value). Chart B.1 plots these uncertainty ratings relative to the amount each policy measure is expected to raise or cost.

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



Longer-term uncertainties

B.9 For most policy costings, the five-year period covered by the Treasury's policy decisions table is sufficient to give a representative view of the long-term cost or yield of a policy change. Typically, that effect is either zero – because the policy has only a short-term impact that has passed by the end of the forecast period – or it would be reasonable to expect it to rise broadly in line with nominal growth of the economy.

B.10 There are some measures in this Budget that might be expected to have different costs in the longer term than over the five-year period of our medium-term forecast:

- sales of annuities in a secondary market would raise income tax receipts in the short term, but at the expense of future receipts. The profile would be similar to that expected for the Budget 2014 pensions flexibility measure (see Chart 4.1 of our March 2014 *EFO*);
- the tax foregone on savings income through introducing a tax-free allowance on savings income would be greater if – as we assume in our long-term projections – interest rates eventually normalise at higher rates than is implied by market expectations over the next five years; and
- the cost of the oil and gas tax measures would be greater in the long term if a higher proportion of North Sea companies were tax-paying, as might be expected. (Currently, a large proportion of companies have either past trading losses or tax deductible expenditure sufficient to offset the tax liability from current profits).

Small measures

B.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 £40 million in any year (this has been increased from £25 million following review of the process);
- there is a good degree of certainty over the tax base;
- it is analytically straightforward;
- there is a limited, well-defined behavioural response; and
- it is not a contentious measure.

B.12 A good example of a small measure announced at Budget 2015 is the ‘capital allowances: energy and water efficient technologies’, updates the list of technologies and products covered by the first-year allowance scheme for energy-saving and environmentally beneficial technologies. This costing was based on DECC and DEFRA estimates on the change to qualifying sales due to the policy. The modelling involves simple assumptions about the proportion of the enhanced capital allowances that will be claimed. No behavioural adjustment was made.

B.13 By definition, any costings that meet all of these conditions will have a maximum uncertainty rating of ‘medium’.

Indirect effects on the economy

B.14 The Government has announced a number of measures taking effect between 2015-16 and 2019-20 that are expected to have a broadly neutral fiscal impact overall, with ‘giveaways’ offsetting 'takeaways' over this period. Further details of the judgements we have taken about indirect effects of policy changes on the economy are provided in Box 3.2 of the *EFO*.

B.15 The Government has announced a package of policies affecting the North Sea oil and gas sector, including the introduction of a new investment allowance, a 10 per cent reduction in the supplementary charge on profits and a 15 per cent reduction in petroleum revenue tax. All else equal, these measures would be expected to reduce the cost of capital associated with investment in the sector and therefore have a positive effect on capital expenditure and production, partially offsetting the negative effect of lower oil prices on the profitability of oil and gas extraction. We have assumed that these measures increase the level of oil production by 2019 by around 15 per cent, equivalent to around 0.1 per cent of GDP. This partly offsets the effect of the significant decline in the oil price since December, which in the absence of these policy changes we assume would have reduced the level of North Sea production by around 30 per cent. In Chapter 4 of the *EFO* we provide greater detail on these pre- and post-measures assumptions that underpin our North Sea revenues forecast.

B.16 The Government has announced a number of measures that will directly affect inflation. This includes a 2 per cent reduction in duty on most beer, cider and spirits and freezing duty on wine, relative to previously assumed increases in line with RPI in April, and the cancellation of the planned increase in fuel duty in September 2015 (in line with RPI inflation). These changes are expected to reduce CPI inflation by less than 0.1 percentage points in 2015 and 2016.

B.17 We have not adjusted our economy forecast in light of the support for first-time buyers, savings tax reform and annuities flexibility announced in the Budget or our updated assessment of the effect of the changes announced in Budget 2014. The effect on the economy of the pensions and annuities flexibility measures is considered to be subject to particularly significant uncertainty.

Departmental spending

B.18 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.

B.19 There are measures announced at this Budget that rely on extra HMRC operational capacity in order to be implemented as intended. These include 'accelerated payments: extension' and 'evasion: common reporting standard'. We sought and received assurances from the Treasury that such activities will be funded. We will be monitoring this commitment ahead of future fiscal events.

B.20 The Treasury's policy decisions table also contains a 'financial transactions adjustment', which reclassifies £0.5 billion of DEL from 'fiscal' spending (which affects borrowing and debt) to 'non-fiscal' financial transactions spending (which only affects debt). This measure therefore reduces borrowing by £0.5 billion, but has no effect on debt. Excluding its effect on borrowing would not have changed any of the conclusions we have reached in this forecast.

Total managed expenditure beyond the Spending Review

B.21 Beyond the years for which the Government has set detailed spending plans, our forecasts are based on the Government's chosen assumption for the growth in total managed expenditure (TME). While the effect of changes in this assumption do not typically 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. In this forecast, that has particularly been true in 2019-20, where spending is significantly higher than would have been the case if this policy assumption had not been changed. Further details of the effect of these changes 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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