HM Government

Summer Budget 2015: policy costings

July 2015

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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 2015, 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 the Summer 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. The document provides further detail on HMRC's approach to compliance. All costings are presented on a National Accounts basis.

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 costings are included in this chapter:

- Personal allowance: increase to £11,000 in 2016-17
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- Equitable Life: doubling payments to Pension Credit recipients

Personal allowance: increase to £11,000 in 2016-17

Measure description

This measure increases the personal allowance (PA) to £11,000 from April 2016 and to £11,200 from April 2017.

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.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-1,055	-1,160	-1,195	-1,160	-1,200

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.

Higher Rate Threshold: increase to £43,000 in 2016-17

This measure increases the higher rate threshold (HRT) to £43,000 from April 2016 and £43,600 from April 2017. This is achieved by increasing the Basic Rate Limit by £300 for each year.

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 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.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-90	-200	-190	-255	-310

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.

Inheritance Tax: £1m couples allowance from 2020 through new main residence nil-rate band phased in from 2017

Measure description

The government will introduce an additional inheritance nil-rate band when a residence is passed on death to direct descendants. This will be £100,000 in 2017-18, £125,000 in 2018-19, £150,000 in 2019-20, and £175,000 in 2020-21. It will then increase in line with CPI from 2021-22 onwards. Any unused nil-rate band will be transferred to a surviving spouse or civil partner. It will also be available when a person downsizes or ceases to own a home on or after 8 July 2015 and assets of an equivalent value, up to the value of the additional nil-rate band, are passed on death to direct descendants.

There will be a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2m. This will be at a withdrawal rate of £1 for every £2 over this threshold.

This measure will also extend the freeze on the existing nil-rate band from 2018-19 until the end of 2020-21.

The tax base

The tax base is the value of all estates passing on death from April 2017 onwards which include a residence that could be bequeathed to direct descendants and would otherwise be liable to an Inheritance Tax charge. The tax base has been estimated using HMRC operational data and ONS research.

The tax base is then grown over the forecast period in line with the OBR forecast for Inheritance Tax.

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.

The main behavioural response is the proportion of estates with a residence being left to direct descendants may be expected to increase so that their estates can benefit from the main residence nil-rate band to a greater extent.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	-270	-630	-790	-940

Areas of uncertainty

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

Pensions tax relief: restrict for gross income over £150,000 from 2016-17

Measure description

This measure will introduce a tapered annual allowance, controlling the amount of tax relief individuals can receive each year on their pension savings. The current annual allowance allows £40,000 of tax-relieved pension savings to be made annually. The taper will limit this for those with incomes including pension contributions above £150,000 to a minimum of £10,000. For each £2 of income above £150,000, an individual's annual allowance will reduce by £1. Once an individual's income reaches £210,000 or above, their annual allowance will be £10,000.

This measure is effective from 6 April 2016.

The tax base

The tax base is tax relieved contributions which exceed the new annual allowance of individuals affected by the measure. These are estimated using data from the Survey of Personal Incomes, HMRC operational data on personal pensions contributions, the ONS Annual Survey of Hours and Earnings and the Occupational Pension Scheme Survey.

Static Costing

The static Exchequer impact is calculated by identifying contributions which will be in excess of the annual allowance and applying the tax charges on these contributions.

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+695	+1,030	+1,430	+1,815

Post-behavioural costing

The costing takes into account a number of behavioural responses. These include:

- individuals and employers reducing pension contributions which would be in excess of the annual allowance. This increases the amount of income subject to income tax;
- individuals in the taper region (between £150,000 and £210,000) reducing their incomes in response to the taper; and
- a small increase in pensions contributions after announcement of the policy but prior to implementation.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-70	+260	+425	+900	+1,180	+1,280

Areas of uncertainty

The main uncertainty in this costing relates to the size of the tax base and the extent of the behavioural effect.

Rent-a-room relief: increase to £7,500

Measure description

This measure will increase the amount of tax relief available for individuals letting out a room or rooms in their only or main home from £4,250 to £7,500.

This measure will be effective from April 2016.

The tax base

The tax base consists of all those earning more than £4,250 from renting out rooms in their main home who would find it more beneficial to use the Rent a Room scheme than to pay tax on their net earnings. The base is estimated using Valuation Office Agency private rents data, Office for National Statistics house price data and HMRC Self-Assessment data.

Costing

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

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-5	-10	-10	-10	-15

Areas of uncertainty

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

Childcare: 30 hour entitlement for working parents of 3 and 4 year olds

Measure description

This measure extends the entitlement of free childcare for 3 and 4 year olds from the current 15 hours per week to 30 hours per week for families where both parents work and for lone parent families in work. This measure is fully effective from September 2017 but will be implemented in some local areas from September 2016.

The extension of free childcare applies to England only as responsibility for the childcare entitlement is devolved.

The implementation of the measure requires departmental expenditure, but parents will be paying for fewer hours of childcare. This results in savings of other government childcare subsidies, such as Tax-Free Childcare (TFC) and the childcare element of tax credits and Universal Credit (UC). The measure calculates the TFC, tax credits and UC AME (Annually Managed Expenditure) savings that are achieved as a result of this extension.

The cost base

The cost base is estimated using HMRC data of the eligible population based on data from the Family Resources Survey and HMRC's forecast for total tax credits expenditure and TFC. The cost base for the UC savings is estimated using DWP's Policy Simulation Model, and is consistent with OBR forecast determinants.

Costing

The costing is estimated by multiplying the size of the eligible cohort with the cost of additional hours being made available and using data on existing spend on the childcare element of tax credits. The costing includes a behavioural adjustment to account for take-up of the measure over the forecast horizon.

The costing in the table below includes departmental expenditure and AME savings.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
AME savings	0	0	+105	+200	+215	+230
Departmental expenditure	0	-15	-470	-840	-875	-900

Areas of uncertainty

The main area of uncertainty relates to take-up of the new entitlement.

Corporation Tax: reduce to 19 per cent from 2017-18, and 18 per cent from 2020-21

Measure description

This measure reduces the corporation tax (CT) main rate from 20 per cent to 19 per cent from 1 April 2017. The rate will then be reduced from 19 per cent to 18 per cent from the 1 April 2020. This rate does not apply to ring fenced profits of oil and gas companies which are subject to different CT rates.

The tax base

Estimates of the tax base for the CT main rate are calculated from the CT receipts forecast. The baseline for the forecast is an estimate of 2014-15 accruals based on the latest tax receipts. This is then projected in line with relevant determinants from the OBR's economic 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	2020-21
Exchequer impact	0	-10	-700	-1,765	-2,035	-2,750

Post-behavioural costing

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

Based on data from CT returns, the proportion of profits in the tax base that are mobile has been estimated at around 50 per cent of profits of quarterly instalment paying companies. Within this data, the sectors where profits are known to be most mobile are examined and the profit flows for these sectors that are most likely to be shifted are identified. An elasticity of -2 has been applied to these mobile profits; a further 1 percentage point decrease in the corporation tax main rate each year results in a 2 per cent increase in the size of the mobile profit base. The elasticity used is a central estimate, informed by multiple academic studies. An adjustment has also been made to account for the increased incentive to incorporate as a result of this measure.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-10	-605	-1,600	-1,870	-2,475

Areas of uncertainty

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

Annual Investment Allowance: set at new permanent level of £200,000

The Annual Investment Allowance (AIA) provides businesses with a 100 per cent tax deduction on qualifying expenditure up to a limit. In Budget 2014 the AIA was temporarily increased to £500,000 until the end of 2015. It is due to fall to £25,000 on 1 January 2016.

This measure will increase the permanent level of the AIA from £25,000 to £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016.

The tax base

The tax base is the qualifying expenditure made by businesses in excess of the pre-measure AIA of £25,000, up to the new AIA. For incorporated businesses, this is estimated using data from tax returns for accounting periods ending in the 2012-13 tax year. For unincorporated businesses data from tax returns with accounting periods ending in 2013-14 are used. The tax base is projected forwards using the relevant OBR forecasts.

Costing

The profile of higher allowances claimed is estimated from the increase in the tax base associated with the policy change, with an adjustment made for the fact that not all businesses will be able to make use of the AIA in all years.

It is assumed that the extra expenditure estimated to now qualify for the AIA as a result of the permanent increase would have otherwise qualified for standard main or special rate capital allowances at 18 per cent or 8 per cent per year on a reducing balance basis. The relevant rate of corporation tax will apply to all incorporated businesses, and an average combined income tax and national insurance rate of around 28 per cent is assumed for unincorporated businesses.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-5	-215	-850	-895	-840	-795

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and the OBR's forecast for total business investment.

Banks: 8 per cent Corporation Tax Surcharge and changes to Bank Levy

Measure description

This measure places a surcharge of 8 per cent on the profits of banking companies in addition to existing corporation tax (CT) liability. It will affect banks and building societies within the charge to UK corporation tax and will be levied on profits of banking companies arising after 1 January 2016. Carried forward losses from before 1 January 2016 will be disallowed. There will be an allowance covering the first £25 million of profits in each group. Where a company's accounting period straddles 1 January 2016, the period will be split and the surcharge will apply to the profits of the notional period commencing on 1 January 2016.

This measure also decreases the effective full rate of the Bank Levy from 1 January 2016 from 0.21 per cent to 0.18 per cent, with the half rate decreasing in proportion. The rate will then fall each year on the 1 January until 2021 when it reaches 0.1 per cent. The full rates are shown in the table below.
A targeted anti-avoidance rule (TAAR) will apply to restrict arrangements to circumvent the surcharge.

Bank Levy rate

The following rate applies from 1 January 2016 onwards:

	2016	2017	2018	2019	2020	2021
Bank Levy rate	0.18%	0.17%	0.16%	0.15%	0.14%	0.10%

The tax base

The tax base is derived from HMRC statistics on the banking and financial sectors, which is grown in line with the OBR's financial sector forecasts, and the OBR's forecast for the Bank Levy. 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.

Costing

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

An allowance is made for banks reducing their chargeable liability by more efficient use of available reliefs. Additional tax planning will be limited by the TAAR.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+415	+555	+365	+225	+105

Areas of uncertainty

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

Corporation Tax: bringing forward payments for large groups

Measure description

This measure advances payment dates for companies paying corporation tax (CT) by quarterly instalments. It will bring forward payment dates by four months, with the first payment due in the third month into an accounting period and the final payment in the last month of the accounting period.

This measure is effective for accounting periods beginning on or after 1 April 2017 and applies to companies with chargeable profits in excess of £20m. Where a company is part of a group, the threshold will be split by the number of companies in the group.

The tax base

The tax base is all groups currently paying by quarterly instalments with profits of over £20m. The tax base is estimated using HMRC operational data from CT accruals 2012-13.

The tax base is then grown over the forecast period in line with the OBR CT forecast.

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.

The costing also takes into account a small behavioural response as a result of changes in companies' cashflow and their ability to estimate their CT liability earlier than usual in the quarterly payments cycle.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+4,495	+3,135	+140	+60

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

Employment Allowance: increase by £1,000 from 2016-17

Measure description

The Employment Allowance (EA) gives a National Insurance contributions (NICs) free allowance for almost all businesses, charities and domestic employers of care and support workers. The current allowance is set at a limit of £2,000; this measure extends the limit to £3,000 from April 2016.

The tax base

The tax base is estimated using HMRC operational data (including the use of Real Time Information data) to determine the size of the population that will be eligible for the extension of the EA to £3,000.

Static Costing

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

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-545	-545	-550	-555	-555

Post-behavioural costing

The costing also includes a behavioural adjustment to account for an increase in take-up of the EA.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-630	-670	-685	-700	-695

Areas of uncertainty

The main uncertainties for the costing are the size of the tax base and the behavioural response.

Oil and gas: expand investment allowance

Measure description

This measure expands the definition of investment expenditure for the purposes of the oil and gas investment and cluster area allowances to include certain discretionary operating expenditure and leasing of production vessels.

This measure will be effective from autumn 2015.

The tax base

The tax base is the increase in expenditure which is eligible for the allowance. This is estimated using HMRC operational data and company data on the proportion of spend from a HMT consultation. The tax base is then grown over the forecast period in line with the relevant OBR forecast determinants.

Costing

The Exchequer impact is calculated by applying the change in the tax base to the static cost of the Investment Allowance which was introduced at Budget 15.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	neg	-5	-5	-5	-5	-10

Areas of uncertainty

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

Dividend Tax: abolish credit, introduce new £5,000 allowance, and increase effective rates by 7.5 pp

Measure description

This measure abolishes the Dividend Tax Credit from April 2016 and introduces a new Dividend Tax Allowance of £5,000 a year. The new rates of tax on dividend income above the allowance will be set at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

The tax base

The tax base comprises dividend income subject to income tax. This is estimated using the Survey of Personal Incomes and other HMRC administrative data.

The tax base is grown over the forecast horizon using OBR determinants.

Static Costing

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

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-10	+3,015	+2,590	+2,780	+2,990

Post-behavioural costing

The costing includes a behavioural adjustment for individuals reducing their taxable dividend income. The costing also makes an allowance for fewer future incorporations of businesses (shown separately below), and for some individuals forestalling the measure by bringing forward income to benefit from lower marginal tax rates.

This results in the following Exchequer impact:

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Dividend tax	0	2,540	-890	+1,120	+2,055	+1,960
Reduction in incorporations	0	+190	+360	+445	+505	+565
Total	0	+2,730	-530	+1,565	+2,560	+2,525

Areas of uncertainty

The main uncertainty in this costing relates to the size of the tax base and the behavioural response.

Residential property: restrict finance relief to basic rate, phase from 2017

Measure description

This measure restricts the ability to deduct loan interest and other financial costs as an expense against income from residential property to the basic rate of income tax. The measure will not apply to corporate landlords, to income from commercial property, or furnished holiday lettings.

Relief will be phased in over 4 years, starting from April 2017.

The tax base

The tax base comprises of total receipts from residential property that currently claim financial costs. This is estimated using HMRC operational data.

The tax base is grown over the forecast horizon using relevant OBR determinants.

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	2020-21
Exchequer impact	0	0	0	+275	+510	+830

Post-behavioural costing

The costing includes a behavioural response from the impacted population having relief for finance costs restricted to the basic rate of income tax.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	+225	+415	+665

Areas of uncertainty

The main uncertainty in this costing relates to the size of the tax base and the behavioural response.

Residential property: reform of wear and tear allowance

Measure description

This measure repeals the income tax Wear and Tear Allowance, currently available to landlords of fully furnished residential property only, and introduces a new relief that enables all landlords of residential dwellings to offset the costs they incur replacing furnishings in their property.

The new allowance will be effective from April 2016.

The tax base

The tax base consists of all individual and corporate landlords renting residential property excluding furnished holiday lettings. This is estimated using HMRC administrative data and market data.

The tax base is grown over the forecast horizon using the OBR forecast for CPI, rental prices and housing stock.

Static Costing

An estimate is made for the actual costs landlords will report post-measure, based on information from HMRC data on capital allowances claims from landlords with furnished holiday lettings. The static Exchequer impact is calculated by comparing the value of pre-measure wear and tear claims in the tax base data described above to the expected post-measure replacement claims.

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+255	+190	+195	+200

Post-behavioural costing

A behavioural adjustment is made to take into account changes in behaviour resulting from landlords being able to deduct the costs they incur in replacing furnishings in their property.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+205	+165	+165	+170

Insurance Premium Tax: increase to 9.5 per cent

Measure description

The standard rate of Insurance Premium Tax (IPT) is currently set at 6 per cent. This measure increases the standard rate of IPT to 9.5 per cent from 1 November 2015 followed by a four month concessionary period.

The tax base

The tax base is the value of all insurance premiums that are taxable at the standard rate of IPT, and is estimated using HMRC operational data and data from the Association of British Insurers.

The tax base is then grown over the forecast period in line with the OBR forecast for IPT.

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.

The costing also takes into account a small reduction in the demand for standard-rated insurance and a small increase in tax planning activity by insurance companies.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+530	+1,460	+1,510	+1,530	+1,550	+1,580

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

VED: reform for new cars purchased from 2017, hypothecated to roads fund from 2020-21

Measure description

This measure creates a new VED banding system for cars first registered on or after 1 April 2017. All other cars will remain in existing banding systems.

Within the new system, first year rates of VED will vary according to the carbon dioxide emissions of the vehicle. There will be a flat standard rate of £140 for all cars except those emitting 0 grams of carbon dioxide per kilometre (gCO_2/km), for which the standard rate will be £0. Cars with a list price above £40,000 will attract a supplement of £310 per year for the first five years in which the standard rate is paid. The new rates and bands are set out in the table below.

Emissions (gCO2 / km)	First year rate	Standard rate*
0	£0	£0
1-50	£10	£140
51-75	£25	£140
76-90	£100	£140
91-100	£120	£140
101-110	£140	£140
110-130	£160	£140
131-150	£200	£140
151-170	£500	£140
171-190	£800	£140
191-225	£1200	£140
226-255	£1700	£140
Over 255	£2000	£140

*cars with a list price above £40,000 when new pay a supplement of £310 per year on top of the standard rate, for five years.

The tax base

The tax base is the total amount of VED based on the stock of vehicles and the respective first year rates and standard rates per VED band. This is projected forward based on assumptions on scrappage rates and new cars sold from the Department for Transport and HMRC operational data.

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.

The costing includes a behavioural response to account for an increase in vehicle purchases in the period between the measure being announced and it being implemented.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+250	+195	+670	+940	+1425
VED impact only	0	neg	+365	+670	+1020	+1425

The Exchequer impact includes the effects on VAT receipts of the increase in vehicle purchases in the period between the measure being announced and it being implemented.

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

Non-domiciles: abolish permanent status

Measure description

This measure removes access to non-UK domiciled tax status from longer-term residents who have been living in the UK for at least 15 out of the last 20 years. It also prevents individuals with a UK domicile of origin who were born in the UK from claiming non-UK domiciled tax status while they are resident in the UK, even if they have previously left the UK and acquired a domicile of choice in another country.

This measure is effective from April 2017.

The tax base

The tax base is estimated using HMRC's Self-Assessment data for 2013-14. The tax base is grown over the scorecard period using historical growth trends in this target population. Estimates of the population's offshore income and related tax liability are calculated using data from HMRC's High Net Worth Unit.

Costing

The static Exchequer impact is calculated combining the total projected tax revenue raised from the affected population's offshore income with the total amount of Remittance Basis Charge revenue that the Exchequer would lose from this group.

This measure will increase the tax liability for those affected. The static costing has been adjusted to account for behaviour, which includes increased tax planning on offshore income, non-compliance and choosing to become non-UK resident. However, behavioural response for high net worth individuals is difficult to predict.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	-15	+475	+380	+385

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base, the amount of offshore income, and the behavioural responses.

Non-domiciles: IHT on residential property

Measure description

This measure implements a change in the rules to ensure that UK residential property indirectly held by non-UK domiciles using an offshore structure like a company will be liable for Inheritance Tax (IHT). All other overseas assets of a non-UK domicile remain excluded from an IHT charge.

This measure is effective from April 2017.

The tax base

The tax base is the value of all property enveloped in offshore companies (or other entities) controlled by non-UK domiciled individuals. This is estimated using HMRC operational data and ONS data.

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.

The costing reflects a behavioural response whereby there will be an increase in tax planning activity by non-UK domiciles that are impacted by this measure. The costing also accounts for some de-enveloping of property.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-5	-5	+35	+100	+75	+85

Areas of uncertainty

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

Climate Change Levy: equal treatment for generators

Measure description

The Climate Change Levy (CCL) is a UK-wide tax on the supply of energy to businesses and the public sector. Renewable source electricity (RSE) is currently exempt from the levy. This measure will remove the exemption for RSE generated on or after 1st August 2015.

Removing the exemption will ensure UK taxpayers are not subsidising overseas renewable generators whose electricity does not contribute to UK climate and renewable targets, and who often already receive subsidies from their own country.

The tax base

The tax base comprises the total level of RSE to be supplied to CCL-paying businesses in the UK. This is estimated using market data and Ofgem data.

This is then grown over the forecast period using the DECC forecast for renewables generation growth.

Static Costing

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

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+490	+540	+610	+695	+800	+910

Post-behavioural costing

The costing includes a behavioural effect to account for suppliers adjusting to the new tax regime.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+450	+490	+575	+685	+800	+910

Areas of uncertainty

The main uncertainty in this costing relates to the size of the tax base and the behavioural effect.

Intangible assets: remove relief for new claims

Measure description

Autumn Statement 2014 restricted the corporation tax relief when a company acquires intangible assets from related individuals on the incorporation of a business. This measure extends this restriction to all acquisitions of goodwill by all companies with the effect that relief will now only be given at the point of disposal, not as an annual deduction from profits through the amortisation of the cost.

The measure is effective from 8 July 2015. It applies to all acquisitions on or after this date.

The tax base

The tax base is the goodwill held within company accounts that is amortised in a given year. This is estimated using HMRC operational data. The tax base is then grown over the forecast period in line with the OBR forecast for GDP.

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.

The costing reflects a behavioural response whereby there will be an increase in tax planning arrangements from some companies. It also accounts for a small amount of goodwill that would be lost on disposal, and a small amount of other intangible assets that are currently included within the goodwill listed in the accounts, both of which are not subject to restriction.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+35	+100	+165	+220	+280	+320

Areas of uncertainty

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

Employment Allowance: withdraw from single person companies

Measure description

The Employment Allowance (EA) entitles eligible businesses, charities and domestic employers to a reduction of their Employer NICs bill.

This measure prevents any incorporated company that only employs a single director and has no other employees from claiming the EA. This will be effective from the tax year 2016-17 onwards.

The tax base

The tax base is estimated using HMRC operational data to determine the size of the population that will be impacted by this measure.

Costing

The Exchequer impact 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	2020-21
Exchequer impact	0	+80	+95	+100	+105	+110

Areas of uncertainty

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

Capital Gains Tax: avoidance by private equity and hedge funds

Measure description

This measure removes the ability to use tax planning to reduce the effective Capital Gains Tax (CGT) rate on carried interest. Carried interest is the reward of the fund allocated to private equity managers that allows them to benefit from any long term growth in the value of the fund. This measure will ensure carried interest returns are raised at the headline CGT rate of 28 per cent.

The measure is effective from 8 July 2015.

The tax base

The tax base comprises carried interest returns on which investment fund managers pay effective CGT rates lower than the prevailing headline CGT rate.

This is estimated using market data and HMRC operational intelligence. It is grown over the forecast horizon using relevant OBR 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.

A behavioural response of those affected by the measure is included in the costing.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+265	+375	+390	+390	+375

Areas of uncertainty

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

Controlled Foreign Companies: loss restriction

Measure description

The measure stops losses and other surplus expenses from being set off against the profits of controlled foreign companies (CFCs).

A CFC charge arises to a UK company in relation to profits which have been diverted from the UK.

This measure removes the ability of UK companies to reduce or eliminate a CFC charge by offsetting UK losses and surplus expenses against that CFC charge.

The measure is effective from 8 July 2015.

The tax base

The tax base is the size of CFC profits and the UK losses and expenses that are currently set off against these profits. This has been estimated using data from corporation tax returns, and HMRC operational information on the overall profitability of the groups affected.

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.

The costing allows for a number of behavioural responses by the UK multinationals affected by the measure that could reduce the yield.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+65	+140	+190	+165	+150	+150

Areas of uncertainty

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

Corporation Tax: intra-group transfers

Measure description

The measure clarifies the tax treatment of transfers between related or connected parties of trading stock and intangible fixed assets by setting out how value is to be taken into account in computing profits for tax purposes.

The measure is effective from 8 July 2015.

The tax base

The tax base is estimated using HMRC operational data. The tax base is then grown over the forecast horizon in line with the OBR determinants.

Costing

The Exchequer impact is calculated by applying the pre- and post-measure tax regimes to the tax base described above. The costing reflects a behavioural response be the population impacted by this measure.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+15	+30	+30	+20	+15	+15

Areas of uncertainty

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

Indirect tax: overseas insurance

Measure description

This measure stops UK insurance companies exploiting place of supply rules by setting up outside the EU in order to receive repair services UK VAT-free. The measure means that the relevant repair services will be treated as supplied in the UK and so UK VAT is charged. For example, if a car is repaired in the UK under a contract of insurance, then UK VAT will be charged on the repair regardless of whether the insurer is based in the UK or outside of the EU.

The measure is effective from April 2016.

The tax base

The tax base is the value of the repair services that are supplied by UK repair businesses to the UK insurers who have been identified by HMRC as being based outside of the EU. This is estimated using HMRC operational data.

It is grown over the forecast horizon with the OBR forecast for nominal GDP.

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	2020-21
Exchequer impact	0	+5	+5	+5	+5	+5

Areas of uncertainty

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

Large Business: enhanced compliance

Measure description

This measure strengthens HMRC's Large Business Strategy by implementing:

- Special Measures; and
- Tools to encourage voluntary compliance.

The measures target large businesses undertaking aggressive tax planning and/or refusing to engage with HMRC in a collaborative and transparent manner. This will include applying financial penalties to businesses that refuse to adopt less aggressive tax planning practices, and persist in tax avoidance and boundary pushing. There will also be a regime to drive improvements in compliance by public naming and increased reporting requirements. This involves compelling large business to publish their tax strategy, setting out their approach to tax planning and its relationship with HMRC to the public.

This measure also invests additional staff in HMRC to tackle non-compliance of large businesses. The measure will be operational from April 2016.

The additional resource measure will be operational from April 2016. HMRC will consult on the detail of special measures and tools to encourage voluntary compliance over the summer, with a view to their inclusion in Finance Bill 2016.

The tax base

The tax base for this measure is the revenue loss occurring as a result of non-compliance by HMRC's largest business customers, which are covered by the Large Business Strategy.

Costing

The special measures and tools to encourage voluntary compliance costing is calculated by estimating the number of businesses that will change their behaviour and the size of the behavioural response to the measure being implemented.

The impact arises from large businesses changing their future tax behaviour as a result of the measure.

The additional resource costing is calculated by applying the pre- and post-measure average compliance yield rates to the tax base described above. This includes increased compliance from Large Businesses following an intervention resulting in yield to the Exchequer.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+40	+170	+340	+480	+625

Areas of uncertainty

The main uncertainties in the costing relate to the size of the behavioural response.

Specialist Personal Tax: enhanced compliance

Measure description

This measure provides 200 additional staff across HMRC's compliance teams working on Specialist Personal Taxes. This will involve recruiting additional resource to expand business as usual activity as well as undertaking a range of new initiatives.

The measure will be operational from April 2016.

The tax base

The tax base for this measure is the revenue loss occurring as a result of non-compliance in the specialist personal taxes, including inheritance tax, capital gains tax, pensions, trusts and estates. This is estimated using HMRC operational data.

Costing

The costing is calculated by applying the pre- and post-measure average compliance yield rates to the tax base described above. The costing accounts for time for training and recruitment.

The costing also includes a behavioural assumption that individuals will become more compliant in the future if their tax affairs are reviewed by HMRC.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+5	+40	+110	+195	+280

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

Wealthy: enhanced compliance

Measure description

This measure extends the current customer relationship management (CRM) model to wealthy individuals with £10-20m of assets. This measure is effective from April 2016.

The tax base

The tax base for this measure is the 2014-15 average yield per customer relationship manager dealing with wealthy individuals with over £20m of assets. This is estimated using HMRC operational data.

Costing

The costing is calculated by applying average CRM yields described above, discounted to allow for the reduced wealth of the next tier of wealthy individuals. The costing accounts for lags in recruitment and training.

The costing also includes a behavioural adjustment to account for individuals becoming more compliant in the future if their tax affairs are reviewed by HMRC.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+5	+25	+50	+70	+85

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

Additional Resourcing for Criminal Tax Fraud Investigations

Measure description

This measure invests in additional resourcing for criminal investigations into cases of suspected tax fraud. This involves funding an additional 125 additional staff in HMRC and 10 additional staff in the Crown Prosecution Service (CPS).

The measure will be operational from April 2016.

The tax base

The tax base for this measure is the average yield arising from past investigations into evasion of tax through criminal activity within the wealthy and corporate populations. This is estimated using HMRC operational data.

Costing

The costing is calculated by applying estimates of average yields and time scales of additional cases based on past operational experience. The costing accounts for lags in recruitment and training.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-70	+15	+135	+190	+195

Areas of uncertainty

The main uncertainty in this costing relates to estimates of average yield from additional cases.

Tackling illicit tobacco

Measure description

This measure will reduce the size of the tax gap and reduce the harm caused by organised crime. The policy will create 15 additional teams within HMRC targeting organised criminals involved in tobacco fraud. This equates to 330 additional staff in HMRC and 20 additional staff in the Crown Prosecution Service. The measure is effective from November 2015.

The tax base

The tax base is the estimated size of the market for illicit tobacco and the tax revenue forgone. This is estimated using HMRC administrative data and tax gap estimates.

Costing

The costing is calculated by determining the proportion of the illicit market that could be targeted by the new teams within HMRC and the duty that should be collected on that.

The costing includes a behavioural adjustment to account for a reduction in demand by those who previously used to consume illicit cigarettes.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+10	+55	+95	+95	+95

Areas of uncertainty

The main uncertainty of this costing relates to the size of the behavioural response.

Expanding the Fiscal Crime Liaison Officer (FCLO) Network

Measure description

This measure will reduce the size of the tax gap and reduce the harm caused by organised crime. HMRC currently has a network of overseas Fiscal Crime Liaison Officers (FCLO) who work with law enforcement agencies and international organisations to tackle illicit trade.

An additional 51 staff will be recruited in HMRC starting in November 2015. This measure will increase the number of FCLO's as well as increasing the number of wider development posts to maximise the impact of intelligence for improved tobacco coverage.

The tax base

The tax base is the estimated size of the market for illicit tobacco and the tax revenue forgone on that. This is estimated using HMRC administrative data and tax gap estimates.

Costing

The costing is calculated by determining the proportion of the illicit market that could be targeted by the new teams within HMRC and the duty that should be collected on that.

The costing includes a behavioural adjustment to account for a reduction in demand by those who previously used to consume illicit cigarettes.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	neg	+10	+25	+35	+40

Areas of uncertainty

The main uncertainty of this costing relates to the size of the behavioural response.

Tackling illicit alcohol

Measure description

This measure creates an alcohol national control room which will enable collection and analysis of additional intelligence. This will inform near real-time deployment of a flexible taskforce to tackle alcohol diversion and other types of fraud both at the border and inland at duty suspended warehouses and cash and carry outlets.

This measure is effective from November 2015.

The tax base

The tax base is the estimated size of the market for illicit alcohol and the tax revenue forgone. This is estimated using HMRC administrative data and alcohol tax gap estimates.

Costing

The costing is calculated by determining the proportion of the illicit market that will be targeted by the new teams within HMRC and the duty revenue loss that will be prevented.

The yield is reduced by a behavioural response from organised criminal groups and for a reduction in demand by those consumers who previously used to consume illicit alcohol.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+5	+50	+165	+300	+315

Areas of uncertainty

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

Hidden Economy

Measure description

This measure extends HMRC's data powers to obtain data from business intermediaries. This will enable HMRC to tackle the use of new business models to facilitate hidden economy activity. The measure also involves recruiting an additional 250 staff in frontline hidden economy compliance resource to maximise the impact of the new data.

New staff will be in place from April 2016, with legislation to extend powers in Finance Bill 2016.

In addition, this measure introduces a single signposted HMRC online disclosure service to allow all types of customers to disclose to HMRC tax which has not been paid. The online disclosure service will be operational from April 2016.

The tax base

The tax base for this measure is the revenue loss occurring as a result of economic activity in the hidden economy that should accrue tax. The latest tax gap estimate for the hidden economy is £5.9bn in 2012-13.

Costing

The costing is calculated by estimating increases in the success rates and average tax yield from HMRC hidden economy investigations, based on historical evidence using similar data. The costing accounts for additional investigative capacity from increased resource, after allowing time for recruitment and training.

The costing also includes a behavioural adjustment to account for individuals becoming more compliant in the future if their tax affairs are reviewed by HMRC. The behaviour arises from an increase in the number of people disclosing, the quality of disclosures and a lower drop-out rate between notification and disclosure.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+15	+110	+195	+255	+285

Areas of uncertainty

The main uncertainties in this costing relate to the impact of new data.

Local compliance resource

Measure description

This measure provides around 1,300 additional staff for HMRC to tackle non-compliance by mid-size businesses, public bodies, and affluent individuals. It includes staff for additional risking teams and staff to handle disputes with taxpayers and collect debts.

The measure will be operational from April 2016.

The tax base

The tax base for this measure is the revenue loss occurring as a result of non-compliance in the sectors this measure is targeting. This is estimated using HMRC operational data.

Costing

The costing is calculated by applying the pre- and post-measure average compliance yield rates to the tax base described above. The costing accounts for lags in recruitment and training.

The costing also includes a behavioural assumption that individuals will become more compliant in the future if their tax affairs are reviewed by HMRC.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+15	+135	+360	+640	+920

Areas of uncertainty

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

Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17

Measure description

This policy freezes the cash value of most working-age benefits for four years from 2016-17. The following elements of working-age benefits included in the Welfare Benefits Uprating Act 2013 are included: Jobseeker's Allowance, Employment and Support Allowance, Income Support, Child Benefit, applicable amounts for Housing Benefit, Child Tax Credit and Working Tax Credit and equivalent rates in Universal Credit. Local Housing Allowance (LHA) rates determine the maximum amount of Housing Benefit payable to most claimants in the private rented sector.

Pensioner-specific benefits, benefits relating to the additional costs of disability or care, and statutory benefits and maternity allowance are excluded from the freeze.

The cost base

The estimates are based on DWP and HMRC benefit expenditure forecasts which include benefit caseload forecasts and economic determinants as forecast by the OBR.

Costing

The savings from this policy derive from the difference between the forecast benefits expenditure using OBR economic assumptions for CPI uprating and benefit expenditure assuming the rates are frozen as described. There are no behavioural responses included in the costing.

The LHA costing is calculated by applying baseline and post-measure LHA rates to the cost base described above.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+90	+940	+2,325	+3,885	+4,010

Areas of uncertainty

The main area of uncertainty relates to the level of CPI inflation.

Benefit cap: reduce to £20,000, and £23,000 in London

Measure description

The current benefit cap limits the total amount a household can receive in benefits to £26,000 per year for couples and households with children and to £18,200 per year for single member households.

This measure limits household benefit receipt to £20,000 per year for couples and households with children and to £13,400 per year for single-member households, except for London where the maximum will be £23,000 per year for couples and households with children and £15,410 per year for single-member households. This applies only to out-of-work households.

The cost base

The data used to estimate savings is based on benefit and tax credit administrative data from DWP and HMRC. This shows which households are excluded from the cap, and which will be subject to it. The data has been adjusted to reflect the benefit regime in future years.

Costing

Households' total benefit income is calculated and, where applicable, capped at the appropriate level based on the caps set by this measure. In the current legacy system it is a households' Housing Benefit award that is reduced until their total benefit award is at the level of the cap; it is these savings that are recorded. As households are moved onto UC it is their total award that is capped and the savings from this which are recorded. The current and projected savings from the existing cap are taken away to get a final savings measure for the new lower caps.

The effect of the uprating freeze on the benefit cap is reflected in the costing, whereas the impact of the benefit cap on other welfare policies is captured in the costings of those policies. This is in line with scorecard conventions. A different approach would change the savings attributed to individual measures, but would not affect the overall savings from the welfare package.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+100	+310	+360	+405	+495

Areas of uncertainty

The measure is assumed to be phased in during 2016/17. If roll-out were to occur more quickly or more slowly, savings may rise or fall in the first year.

Limit child element to 2 children for new births in tax credits and new claims in UC

Measure description

This measure limits the child element of Child Tax Credit (CTC) and Universal Credit to 2 children for children born on or after 6 April 2017. It also limits the child element in Universal Credit (UC) to the first 2 children for new claims after this date.

In UC those who have received tax credits or UC with an interruption of less than 6 months will be protected. The disabled child element and the severely disabled child element will not be affected by this measure.

To ensure coherence, the equivalent allowances in Housing Benefit for each dependent child will also be limited to 2 children, for new births and new claims from April 2017.

This measure is effective from April 2017.

The cost base

The cost base is estimated using the OBR's forecast for total tax credits and UC expenditure as set out at Budget 15.

Costing

The costing is estimated by calculating the difference between the pre- and post-measures regimes. There are is a small behavioural responses included in the costing.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+315	+700	+1,055	+1,365

Areas of uncertainty

The main area of uncertainty is around projections of the UC caseload.

Remove family element in tax credits and UC, and the family premium in Housing Benefit, for new claims

Measure description

This measure removes the family element of Child Tax Credit (CTC) and the Universal Credit (UC) equivalent, currently worth £545 per year, for first children born on or after 6 April 2017. It also removes the family premium in Housing Benefit, which is an income allowance worth £17.45 per week for families with children. In Housing Benefit this will apply to new claims to the benefit or to children born on or after April 2016, in CTC this will apply to children born on or after 6 April 2017, and in UC this will apply to new claims to the benefit on or after 6 April 2017.

In UC those who have received tax credits or UC with an interruption of less than 6 months will be protected.

The cost base

The cost base is estimated using the OBR's forecast for total tax credits expenditure and the forecast expenditure on UC as set out at Summer Budget 15.

Costing

The costing is estimated by calculating the difference between the pre- and post-measures regimes. There are no significant behavioural responses included in the costing.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+55	+220	+410	+555	+675

Areas of uncertainty

The main area of uncertainty is around projections of the UC caseload.

Increase the tax credits taper rate to 48 per cent

Measure description

This measure increases the tax credits taper rate from 41 per cent to 48 per cent of gross income.

This measure is effective from April 2016.

The cost base

The cost base is estimated using the OBR's forecast for total tax credits expenditure.

Costing

The costing is estimated by calculating the difference between the pre- and post-measures regimes. There are no significant behavioural responses included in the costing.

This results in the following costing:

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+1,475	+1,035	+600	+345	+245

Areas of uncertainty

The main area of uncertainty is around projections of the Universal Credit caseload.

Reduce income thresholds in tax credits and work allowances in UC

Measure description

This measure will reduce the work allowance in Universal Credit for non-disabled households without children to zero and simplify all other work allowances to a rate of £192 per month for households with housing costs and £397 per month for households without housing costs.

The measure will be implemented for all Universal Credit claimants from April 2016. Work allowances will remain at these rates until 2017-18.

Transitional protection will ensure no cash losses for households at the point they are migrated from legacy benefits onto Universal Credit.

This measure also reduces the income threshold in Tax Credits to £3,850 per year, from April 2016.

The cost base

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

Costing

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

We assume that work allowances will be uprated by CPI from 2018/19 onwards.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+2,880	+3,060	+3,180	+3,310	+3,440

Reduce income rise disregard in tax credits

Measure description

The income rise disregard is the amount up to which any increase in a claimant's income within a year is not taken into account in calculating their tax credits entitlement for that year. This measure reduces this limit from £5,000 to £2,500. It is effective from April 2016.

The cost base

The cost base is estimated using the OBR's forecast for total tax credits expenditure.

Costing

The costing is an estimate of the change in tax credit expenditure on families receiving tax credits and having an income rise of between £2,500 and £5,000 compared to their previous year's income using HMRC administrative data.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+170	+225	+250	+180	+110

Areas of uncertainty

The main area of uncertainty is around projections of the UC caseload.

UC waiting days: revised schedule

Measure description

This measure will revise the implementation date for introducing 7 waiting days in Universal Credit, from 1 July 2015 to 3 August 2015. New benefit claimants will have to wait 7 days before becoming eligible for financial support. Exemptions will apply for vulnerable groups.

The cost base

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

Costing

The costing estimates the impact of moving the start date to 3 August 2015. It identifies the number of new awards to Universal Credit who would have served waiting days between 1 July 2015 and 3 August 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	2020-21
Exchequer impact	-5	0	0	0	0	0

End automatic entitlement for out-of-work 18-21 year-olds

This measure removes automatic entitlement to the housing element of Universal Credit (UC) for out-of-work 18-21 year olds. Exemptions will be in place for parents, certain vulnerable groups and for those recently in-work.

The policy will apply to any new claim to UC from April 2017, where the claimant has housing costs at the start of their claim or subsequently acquires them.

The cost base

The baseline expenditure for this costing is the forecast expenditure on UC.

Costing

The costing is calculated by assessing the impact of the change on the average entitlement to UC of the affected caseload. The costing has been projected forward using UC caseload forecast. The saving in any one year is the average reduction multiplied up by the non-exempt caseload.

Exemptions have been estimated using DWP's administrative data.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+25	+35	+35	+40

Areas of uncertainty

The main area of uncertainty is around projections of the UC caseload.

Reduce social sector rents by 1 per cent each year for 4 years from 2016-17

Measure description

This measure reduces rents for social housing in England by 1 per cent each year, from 2016-17 to 2019-20, reducing expenditure on Housing Benefit (HB) and Universal Credit (UC).

The cost base

The cost base for the static costing is the annual forecast expenditure on HB awarded to around 2.7m social sector tenants in England.

Static costing

The costing is based on the difference between forecast HB expenditure under a policy of downrating social rents and under the existing policy, which allows for uprating of rents by CPI+1% each year.

Static Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+240	+685	+1,250	+1,860	+1,995

Post-behavioural costing

Adjustments have been made to the costing to capture the reduction in Local Authority (LA) income as result of the rent change and the subsequent impact on LA capital and revenue expenditure.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+165	+475	+875	+1,320	+1,445

Areas of uncertainty

The biggest area of uncertainty is around CPI inflation, which drives the counterfactual growth in social sector rents.

Pay to Stay: higher income social housing tenants to pay market rents

Measure description

From 2017-18 social landlords will be required to charge high income social tenants in England a market, or closer to market rent. Additional rental income collected by local authorities will be returned to the Exchequer.

The cost base

The cost base is estimated using data on social tenants' household incomes from the English Housing Survey. Social rents are sourced from Department for Communities and Local Government administrative data. The cost base also includes DWP forecasts of Housing Benefit expenditure on high income social tenants.

Costing

The static costing is the additional rental income raised by charging high income housing tenants in local authorities market or near market rents from 2017-18, net of changes in Housing Benefit expenditure in the social rented sector.

Social rents are assumed to reduce by 1% per annum in nominal terms for four years, from 2016-17. Market rents on social properties are assumed to equal the average private rent in each region adjusted downwards to reflect rents paid by tenants in receipt of Housing Benefit. Market rents are assumed to grow in line with overall private rental inflation.

Adjustments to the costing have been made in respect of the behavioural response of households whose incomes reduce as a result of the measure, including additional moves out of the social rented sector and some offsetting reductions in Housing Benefit expenditure as lower-income households move into social housing, and increases in Right to Buy sales.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+365	+185	+245	+240

Areas of uncertainty

The costing is sensitive to the difference between social and market rents on social housing. The behavioural response of affected households is the other main source of uncertainty, especially numbers exercising their Right to Buy.

Limit backdating awards to 4 weeks

Measure description

This measure reduces the maximum period for which Housing Benefit (HB) can be backdated from 26 weeks to 4 weeks. This aligns HB with Universal Credit, for which the maximum backdating period will be 1 month.

The cost base

The cost base is the projected expenditure and caseload for Housing Benefit under current policies.

Costing

Estimates for reducing backdating were based on analysis of backdated payments recorded in the HB administrative data, which identifies current numbers of backdated payments and the periods of backdating.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+10	0	neg	neg	neg

Areas of uncertainty

The main uncertainty is around any behavioural response whereby people claim HB sooner that they would have otherwise.

Support for Mortgage Interest: change from welfare payment to loan; maintain capital limit at £200,000

Measure description

This measure maintains the capital limit on Support for Mortgage Interest (SMI) payments at £200,000, from April 2016. The measure also changes SMI from a benefit to an interest-bearing loan, secured against the mortgaged property, from April 2018.

The cost base

The cost base for the static costing is the forecast expenditure on Support for Mortgage Interest payments, calculated using DWP's statistical and accounting data.

Costing

The costing is based on DWP administrative data and assesses a number of features of SMI claimants and their circumstances, such as the amount of equity claimants, and how likely they are to sell their home, based on their age. Due to the interest due on the loan, the costing assumes a decrease in take-up of SMI. It assumes that claimants seek to pay back the loan as soon as possible after moving into work.

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-30	-35	+270	+255	+255

Areas of uncertainty

The main uncertainties are around the rate at which SMI loans will be recouped and the effect of the change to the scheme on take up.

Align Work-related Activity rate with JSA for new claims

Measure description

This measure will remove the additional payments associated with the Employment and Support Allowance Work-related Activity Component and the Universal Credit Limited Capability for Work Element for new benefit claimants from April 2017.

The cost base

The cost base is estimated using DWP's Employment and Support Allowance flows model based on DWP benefit caseload and expenditure forecasts. The cost base is consistent with OBR Summer Budget 2015 forecast determinants.

Costing

The costing is estimated by calculating the difference between the pre- and post-measure costings of Employment and Support Allowance and Universal Credit in which the population expected to be entitled to the Employment and Support Allowance Work-Related Activity Component and the Universal Credit Limited Capability for Work Element have the component reduced to £0 for the duration of their claim.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+55	+225	+445	+640

Areas of uncertainty

The main uncertainty in the costing relates to the potential impacts on increased applications to Personal Independence Payment.

UC parent conditionality from when youngest child turns 3

Measure description

The measure extends full conditionality in Universal Credit to lone parents and responsible carers with a youngest child aged 3 or 4 years. This means that lone parents and responsible carers will be required to be available for and looking for work, and comply with Jobcentre Plus conditionality regimes, once their youngest child is aged 3 years.

The cost base

The cost base is the Summer Budget 2015 OBR forecast for the Universal Credit caseloads of lone parents and responsible carers.

Costing

It is assumed that more lone parents and other responsible carers will move into employment as a result of the policy change. This is based on evidence from an impact assessment following the introduction of the Lone Parent Obligation. Savings result from the savings to the Exchequer for these families claiming less or no benefit payments.

Post-behavioural Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	-5	-5	+35	+30

Areas of uncertainty

The main area of uncertainty is the effect this measure has on employment for the affected lone parents and responsible carers and what the take-up of childcare support will be amongst this group.

Fraud, error and debt: tax credits changes

Measure description

This measure will extend the use of the private sector to improve the collection of tax debt to tax credit debt. This will target tax credit debt in excess of £3,000 that has already passed the extended tax credits debt collection process. This measure is effective from April 2016.

This measure will also recover overpayments of Working Tax Credit from payments of Child Tax Credit, and recover overpayments of Child Tax Credit from payments of Working Tax Credit. This measure will be effective from November 2015.

The cost base

The tax base for this measure is all the tax credit debt in excess of £3,000 that has not been collected via the Extending Tax Credits debt collection process, and the amount of tax credit debt owed by those in live awards in the Tax Credits system. The tax base is estimated using HMRC administrative data.

Costing

The costing is calculated by applying the estimated debt collection and the new debt recovery rules to the size of the cost base. There is a small behavioural adjustment to account for those individuals who will not be required to pay the debts due to hardship.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+60	+55	+30	neg	neg	neg

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and the collection rate that will be achieved by the private sector provider.

Tax Free Childcare: updated rollout

Measure description

Tax-Free Childcare (TFC) will provide 20 per cent support towards working families' childcare costs, up to a maximum contribution of £2,000 per child per year (£4,000 per child per year for disabled children). TFC was due to be launched in autumn 2015.

As a direct result of a legal challenge, this measure reflects that TFC will now launch in early 2017.

This measure also defers the closure to new entrants to the Employer-Supported Childcare (ESC) scheme from autumn 2015 to early 2017.

The cost base

The cost base is estimated using the OBR's forecast for Tax-Free Childcare, which uses data from the Family Resources Survey 2012-13 and childcare cost assumptions derived from the DfE Early Years Survey of parents 2012.

This results in an estimate that TFC will be available to up to 1.8 million working families. It is estimated that around two thirds of these families have qualifying childcare costs.

Costing

The costing is estimated by calculating the difference between the pre- and post-measures regimes. A behavioural adjustment was made to account for increase in take-up over the forecast horizon, the demand for childcare and increase in new entrants to the ESC scheme prior to the introduction of TFC.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+165	+370	-95	-130	-90	-40

TV License: BBC funding for over-75s

Measure description

The BBC has agreed to take on responsibility for funding the over-75s licence fee concession. This will be phased in from 2018-19, with the full liability being met by the BBC from 2020-21. The BBC will absorb this cost from within their licence fee revenue. The measure will be phased in from 2018-19, with the full liability being met by the BBC from 2020-21.

The cost base

The cost base is the caseload and forecast expenditure on BBC licenses for individuals over 75 years of age. The cost base is estimated using the OBR's expenditure forecasts, including the assumption that the cost of a TV licence is increased in line with CPI from 2017-18 onwards. This an OBR assumption about movements in licence fees from 2017-18.

Costing

The costing is estimated by multiplying the forecast cost of the licence fee with the number of eligible households. This assumes growth in the number of eligible households due to demographic change and the assumed increase in licence fees described above. A small adjustment was made to reflect how the BBC will manage taking on the concession.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	+200	+445	+745

Equitable Life: doubling payments to Pension Credit recipients

Measure description

This measure makes a further lump sum payment to eligible Equitable Life policyholders under the Equitable Life Payment Scheme (the Scheme) who are in receipt of Pension Credit (PC). Payments equal to the value of the lump sum payment already received by this group under the Scheme will be made in early 2016.

The cost base

The cost base is the group of Equitable Life policyholders as set out above, namely those policyholders on PC who have received a lump sum payment representing 22.4% of their relative losses (as set out in the Scheme rules). The numbers in this group are taken from estimates regarding the proportion of policyholders on Pension Credit and the size of their losses.

Costing

The costing is calculated by applying the pre- and post-measure regimes to the cost base described above. The costing also provides an allowance for administration costs of making the additional payment.

Exchequer impact (£m)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-50	0	0	0	0	0

Areas of uncertainty

The uncertainties in this costing relate to assumptions around the number of policyholders and the proportion in receipt of PC.

Note on HMRC Operational Measures

The measures presented in the scorecard to tackle evasion and non-compliance are additional to HMRC's current level of compliance performance. The Government is committed to providing HMRC with the funding it needs to maintain its current level of compliance performance, whilst making efficiencies.

The current assessment of the funding required to sustain compliance performance whilst delivering efficiencies is set out below. The investment needed to support this and the new Budget measures is set out in the scorecard. This assessment will be subject to continuing analysis and discussion and, along with the position for HMRC's full range of activities, will be settled at the Spending Review.

Expected RDEL expenditure on HMRC's compliance activities

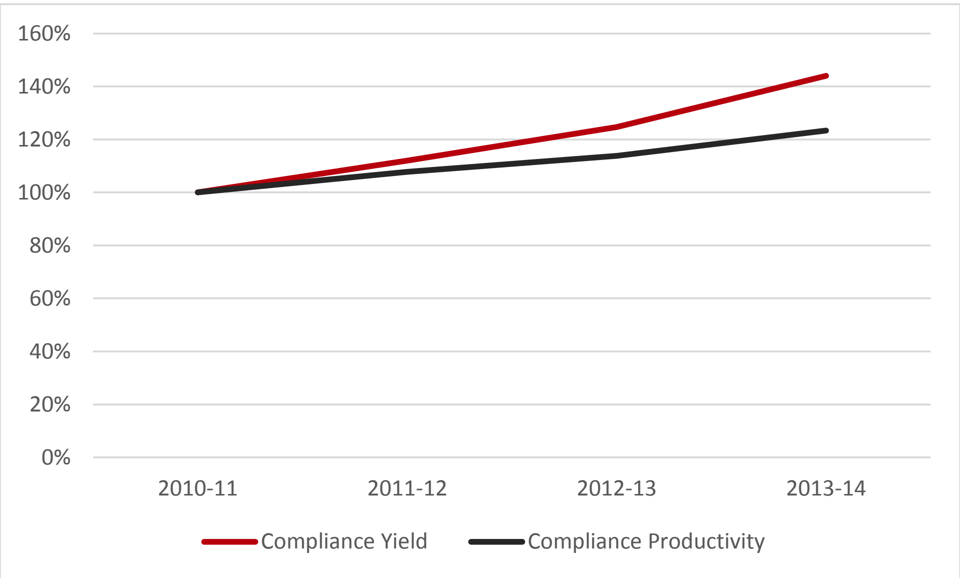
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
RDEL (£m)	1,189	1,148	1,112	1,084	1,064	1,046

Over the Spending Review 2010 period HMRC has delivered productivity improvements to its compliance performance of around 5 per cent a year from returns on investment and new ways of working.

The graph below shows that HMRC Compliance Yield grew by 44 per cent over the period from 2010-11 to 2013-14. Stripping out the effects of growth in tax receipts over this period (9 per cent) and numbers of HMRC compliance staff over the period (7 per cent) implies a growth in compliance productivity per person of around 5 per cent a year.

Chart A: Productivity improvements in HMRC Compliance Yield after stripping out the effects of growth in tax receipts and numbers of HMRC compliance staff (Index year 2010-11)

Chart A



Source:

HMRC Compliance Yield and HMRC Tax Receipts

	2010-11	2011-12	2012-13	2013-14
HMRC Compliance Yield, £bn	16.6	18.6	20.7	23.9
Tax Receipts[1], £bn	452.7	471.3	472.7	492.6

[1] Total HMRC Receipts includes payments into the Consolidated Fund and all payovers of NICs including those of Northern Ireland; gross of all Child & Working Tax Credits. Consistent with the OBR definition published in the supplementary fiscal table 2.8 i.e. on a cash basis.

Office for
Budget Responsibility

Certification of policy costings

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

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