HM Government

Budget 2016:
policy costings

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1 Introduction

1.1 This document sets out the assumptions and methodologies underlying costings for tax and Annually Managed Expenditure (AME) policy decisions announced since the Spending Review and Autumn Statement 2015, where those policies have a fiscally significant impact on the public finances. These costings are all submitted to the independent Office for Budget Responsibility (OBR) for their certification. 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 2016. 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 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 and Higher Rate Threshold increase
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Personal Allowance and Higher Rate Threshold increase

Measure description

This measure increases the personal allowance to £11,500 and the higher rate threshold to £45,000 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 730,000 tax records, weighted to be representative of all taxpayers. The latest available data is for the tax year 2013-14.

The tax base, including taxpayer numbers and incomes, grows over the forecast period in line with OBR Budget 2016 forecast determinants.

Costing

The Exchequer impact is estimated using a micro-simulation model of the UK tax system. The pre- and post-measure tax regimes is then applied to the tax base described above to estimate the impact of the measure in terms of the difference in income tax and National Insurance contributions liabilities and any behavioural and secondary impacts of the change.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-2,030	-2,540	-2,510	-2,585

Areas of uncertainty

The main uncertainties in this costing relate to the projection of SPI survey data from 2013-14, which in particular affects the number of baseline taxpayers who will benefit from the measure.

Lifetime ISA and raise ISA limit to £20,000

Measure description

People who are under the age of 40 will be able to open a Lifetime ISA from April 2017 and save up to £4,000 per year. The government will then top this amount up by 25%. This means that for people who save the maximum each year, the government will top up the account with £1,000, paid at the end of the tax year.

Lifetime ISA funds can be put toward a deposit for a home that is worth a maximum of £450,000 in all areas of the UK, or taken at age 60 to be used as retirement income. Savers can have a Lifetime ISA each year, as well as a cash ISA, a stocks and shares ISA, and an Innovative Finance ISA.

This measure also increases the annual ISA savings limit for all adults to £20,000 from April 2017.

The tax base

The tax base for the Lifetime ISA consists of income and/or wealth which could be saved into this product and receives the bonus.

The tax base for the increase of the ISA savings limit consists of the returns on savings paid to all savers using ISAs who are expected to be constrained by the current ISA subscription limit from April 2017 who will be able to increase their ISA savings under this new higher limit.

The tax base, including taxpayer numbers and incomes, grows over the forecast period in line with OBR Budget 2016 forecast determinants.

Costing

The costing of the Lifetime ISA accounts for a behavioural response whereby individuals may choose to take up this voluntary savings option. This behavioural response has been estimated by comparing the relative incentives to save into the Lifetime ISA compared to alternative pension and savings products. Administrative data on personal pension contributions and ISA savings of the eligible population has been used to estimate the value of Lifetime ISA contributions. This leads to an Exchequer cost through 25% matching of eligible contributions.

The costing of the ISA savings limit increase is calculated by estimating the value of tax on savings that individuals will move from taxable savings into ISAs as a result of this change.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	neg	-170	-330	-590	-850

Areas of uncertainty

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

Savings: removing withholding tax obligations

Measure description

This measure ends withholding obligations for interest paid by collective investment vehicles (CIVs) and on peer to peer (P2P) loans for the 2017-18 tax year onwards. For CIV, a withholding tax is presently in place. For P2P, this means that the government will not proceed with a previously announced measure to introduce new rules for withholding tax from April 2017.

The tax base

The tax base is interest paid to investors by collective investment vehicles (CIV) and on peer to peer (P2P) loans.

Costing

The costing is the difference in timing between collection mechanisms. This measure does not affect the amount of tax due. The Exchequer impact is a result of the changes in the timing of the tax collected as withholding tax is collected earlier than the non-withholding mechanisms. While this leads to a small Exchequer cost in the forecast period due to an increasing tax base, the cost broadly nets off to zero in the long run.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-260	-45	-100	-120

Areas of uncertainty

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

Financial Advice Markets Review: increase tax relief on employer provided pension advice

Measure description

This measure will increase the tax and NICs relief available for employer-arranged pensions advice from £150 to £500 to help make advice more accessible and affordable. Under the new exemption, the first £500 of any advice received is eligible for the relief.

This measure will be effective from April 2017.

The tax base

The tax base is the amount of employer-provided pensions advice which is currently taxed because the value exceeds £150.

Costing

The costing is the tax and NICs lost when some of the existing tax base is exempted by the higher limit.

The post-behavioural costing allows for further tax and NICs lost from additional take-up.

Post-behavioural Exchequer impact (£m)

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

Areas of uncertainty

The main uncertainty in this costing relates to the size of the tax base and assumptions for take-up.

Soft Drinks Industry Levy

Measure description

This measure introduces a unit-levy on producers and importers of water-based added sugar soft drinks. The levy is based on the total sugar content of the drinks.

There will be two bands – one for sugar content above 5g/100ml and a second higher band for sugar content above 8g/100ml.

This measure will be effective from April 2018.

The tax base

The tax base is based on Mintel and Zenith International data on the volume of taxable drinks produced. This is then divided into the different bands based on their sugar content. An adjustment is also made to remove small producers.

Costing

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

The costing accounts for a behavioural response whereby producers reformulate their product mix by lowering sugar content, promoting lower sugar alternatives, and reducing portion sizes. It also accounts for the behavioural responses resulting from any change to the associated prices.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+520	+500	+455

Areas of uncertainty

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

Business Rates: permanently double the Small Business Rate Relief and extend thresholds

Measure description

This measure permanently doubles the Small Business Rate Relief (SBRR) and raises its thresholds from 1 April 2017 at full Exchequer cost. The changes provide eligible properties with rateable values up to £12,000 with 100% relief, with the relief tapering to 0% for eligible properties with rateable values up to £15,000.

The cost base

The primary data sources are the 2010 Valuation Office Agency (VOA) rating list and National Non-domestic Rates 1 (NNDR1) returns provided by local authorities and published by the Department for Communities and Local Government.

Costing

The starting point for the static cost is the NNDR1 return forecast for the cost of SBRR for 2015-16. This number is then adjusted to reflect inflation (using the RPI data by which business rates are uprated annually).

Next, the total number of properties on the VOA rating list is adjusted to account for empty properties and other SBRR eligibility criteria. The new threshold limits are then applied. The proportion of single properties benefitting from the current doubled SBRR reported through the NNDR1 return is then applied to the new thresholds and the new aggregate business rates bill is calculated.

Two further adjustments are made to the static costs:

- Business tax adjustments: business rates are deductible for corporation tax for companies and income tax for the self-employed.
- Barnett consequentials: business rates are devolved to Scotland, Wales and Northern Ireland.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-1,575	-1,410	-1,420	-1,460

Areas of uncertainty

The main uncertainties in this costing relate to the size of the cost base, and the impact of the 2017 revaluation.

Business Rates: increase threshold for higher multiplier to £51,000

Measure description

This measure will increase the standard multiplier threshold from £18,000 (or £25,500 in Greater London) to £51,000 from 1 April 2017 onwards.

The cost base

The primary data source is the Valuation Office Agency (VOA) 2010 rating list.

Costing

The total rateable value of properties in Greater London with rateable values between £25,500 and £51,000 and the rest of England between £18,000 and £51,000 is calculated using the VOA rating list. This total is then multiplied by the current standard multiplier supplement. This figure is then adjusted to reflect inflation for future years.

Two further adjustments are made to the static costs:

- Business tax adjustments: business rates are deductible for corporation tax for companies and income tax for the self-employed.
- Barnett consequentials: business rates are devolved to Scotland, Wales and Northern Ireland.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-125	-110	-110	-115

Areas of uncertainty

The main uncertainties in this costing relate to the size of the cost base, and the impact of the 2017 revaluation.

Business Rates: switch from RPI in April 2020

Measure description

The business rates multiplier (the tax rate) is increased each April in line with inflation. The figure used is the Retail Price Index (RPI) from the preceding September. This measure changes that measure of inflation to the government's main measure of inflation, currently the Consumer Prices Index (CPI) from April 2020.

The cost base

The primary data sources are the OBR Budget 2016 forecast for future business rates receipts and the OBR Budget 2016 forecast for RPI and CPI. The tax base for this measure consists of the 1.8m properties that are liable for business rates.

Costing

The RPI forecast on which business rates forecasts are based in 2020-21 is replaced with the CPI forecast. Adjustments are then added to account for the changes in Small Business Rate Relief and the standard multiplier threshold. The costs will grow after the first year of implementation as the multiplier each year is dependent on the previous year's multiplier.

Two further adjustments are made to the static costs:

- Business tax adjustments: business rates are deductible for corporation tax for companies and income tax for the self-employed.
- Barnett consequentials: business rates are devolved to Scotland, Wales and Northern Ireland.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	0	-370

Areas of uncertainty

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

Corporation Tax: reduce to 17% in April 2020

Measure description

This measure reduces the corporation tax (CT) main rate to 17% from the 1 April 2020. This rate does not apply to ring fenced profits of oil and gas companies which have their own CT rates.

The tax base

Estimates of the tax base for the CT main rate are calculated from the OBR Budget 2016 CT receipts forecast. The baseline for the forecast is calculated using the latest tax receipts data and is then projected in line with relevant determinants from the OBR Budget 2016 economic forecast.

The estimate of chargeable profits taxed at the main rate of CT calculated from this forecast is around £200bn in 2015-16.

Static Costing

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

Static Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	-150	-1,105

Post-behavioural costing

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

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)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	-120	-945

Areas of uncertainty

The main uncertainties in this costing are the tax base and behavioural response.

Corporation Tax: restrict relief for interest

Measure description

This measure introduces a restriction on the tax deductibility of corporate interest expense consistent with the G20-OECD recommendations for addressing base erosion and profit shifting (BEPS).

It introduces a fixed ratio rule limiting corporation tax (CT) deductions for net interest expense to 30% of a group's UK earnings before interest, tax, depreciation and amortisation (EBITDA). Alongside this, a group ratio rule based on the net interest to EBITDA ratio for the worldwide group will be introduced.

The rules also include a de minimis threshold of £2m net UK interest expense per group, an exclusion for public benefit projects, carry-forward/back rules to deal with volatility in interest expense and EBITDA, and changes to simplify and integrate the worldwide debt cap into the new interest restriction rules.

This measure will be effective from 1 April 2017.

The tax base

The tax base is the net interest expense that is restricted as a result of applying the new interest restriction rules. This has been estimated using information from company tax returns and consolidated financial statements for large groups operating in the UK. The tax base grows over the forecast period in line with OBR Budget 2016 determinants.

Costing

The costing is estimated by applying the CT rules to the tax base described above. The costing allows for a number of behavioural responses by the groups affected as they seek to mitigate the impact of the new rules.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+920	+1,165	+995	+885

Areas of uncertainty

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

Corporation Tax: withholding tax on royalties

Measure description

This measure strengthens rules around withholding tax on royalties. This measure has three parts. The part counteracting payments of royalties made under tax avoidance arrangements exploiting double taxation agreements is effective from 17 March 2016. The parts widening the categories of royalties to which withholding tax must be applied and expanding the circumstances in which royalties will be considered to be from a source in the UK will have effect from Royal Assent of the Finance Bill 2016.

The tax base

The tax base is estimated using HMRC operational intelligence and consists of:

- non-resident multinational corporations with a permanent establishment (PE) in the UK, who make royalty payments that are not currently within those to which withholding tax must be applied.
- resident persons making payments of royalties under tax avoidance arrangements; and
- resident persons making payments of royalties that are not currently within those to which withholding tax must be applied.

The tax base is projected over the forecast period using the OBR Budget 2016 profits forecast.

Costing

The costing is estimated by applying withholding tax at 20% to the tax base described above. The costing allows for a number of behavioural responses, whereby those affected seek to mitigate the impact of the changes.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+210	+165	+115	+120	+125

Areas of uncertainty

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

Corporation Tax: extend scope of hybrid mismatch rules

Measure description

This measure addresses tax avoidance arrangements involving permanent establishments that generate a tax mismatch. Mismatches can involve either double deductions for the same expense, or deductions for an expense without any corresponding receipt being taxable.

The measure extends the scope of the hybrid mismatch measure already announced at Autumn Statement 2014. The original measure targets hybrid mismatches from hybrid financial instruments and hybrid entities, hybrid transfers, dual resident companies.

This measure is effective from 1 January 2017.

The tax base

The tax base is the forecast level of cross-border payments by companies which generate these types of hybrid mismatches. The tax base is estimated using HMRC administrative data, the ONS Pink Book, US Bureau of Economic Analysis data and Bank of England data. The tax base grows in line with OBR Budget 2016 forecasts.

Costing

The costing applies the relevant corporation tax rates to the tax base. A behavioural adjustment is made to account for the affected population finding ways to mitigate the tax impact.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+15	+265	+255	+215	+200

Areas of uncertainty

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

Corporation Tax: reform loss relief

Measure description

This measure is a loss reform that will relax the use of carried-forward losses, enabling them to be used against profits of any type and by any company within a group. It will also restrict the use of carried forward losses above a threshold of £5m so that they cannot reduce a company's profits by more than 50%.

This measure will be effective from 1 April 2017.

The tax base

The tax base consists of two parts. Firstly, losses carried forward and used by UK companies that are greater than 50% of relevant profits after in-year losses are accounted for. Secondly, new losses carried forward from the previous year that can be set against profits of any kind within any group company up to the 50% limit.

The tax base grows over the forecast period in line with OBR Budget 2016 forecasts.

Costing

The costing is estimated by applying effective corporation tax rates to the tax base affected by this measure, described above. The majority of those affected are large groups.

A behavioural adjustment is made to reflect groups finding ways to mitigate the impact of this measure.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+395	+415	+295	+255

Areas of uncertainty

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

Corporation Tax: further restrict use of banks' pre-2015 losses

Measure description

This measure alters the existing bank-specific loss relief restriction for pre-2015 losses so that the proportion of profits in a year against which losses brought forward by banking companies can be set is reduced from 50% to 25%.

This measure will be effective from April 2016.

The tax base

The tax base consists of carried-forward losses that accrued up to 1 April 2015 which are used by regulated banking companies to reduce taxable profit. The decline in the tax base as the stock of pre 1 April 2015 losses is modelled over the forecast period using the OBR Budget 2016 corporation tax forecast.

Costing

The costing makes assumptions about the future taxable profit of banking companies, and how much of this would be offset by carried-forward losses before and after the imposition of a 25% restriction as opposed to a 50% restriction.

The costing also accounts for a behavioural response of banking groups to the restriction whereby those affected may find alternative routes of tax planning and avoidance, taking into account the targeted anti-avoidance rule within the legislation.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+330	+520	+465	+375	+315

Areas of uncertainty

The main uncertainties in this costing relate to the future profit of banking groups and behavioural response.

Corporation Tax: implement agreed patent box nexus approach

Measure description

This measure changes the design of the UK Patent Box to comply with a new international framework for preferential tax regimes for intellectual property (IP) set out by the Organisation for Economic Co-operation and Development (OECD).

This means that the amount of profit from an IP asset which can qualify for the reduced 10% rate of corporation tax (CT) available through the Patent Box will depend on the proportion of the asset's development expenditure incurred by the company (the "nexus fraction").

This measure is effective for new entrants to the Patent Box from 1 July 2016. IP arising before that date to a company within the existing Patent Box rules will continue to receive the benefit of the existing Patent Box for a period of five years, until 30 June 2021.

The tax base

The tax base is the amount of IP profit excluded by the application of the fraction mentioned above. This has been estimated using data from company tax returns and HMRC operational evidence. The tax base is projected over the forecast period using the OBR Budget 2016 profits forecast.

Costing

The costing is estimated by applying the difference between the main and reduced rates of CT to the tax base described above. The costing allows for a behavioural response to account for firms seeking to mitigate the impact of the changes.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+15	+25	+35	+45

Areas of uncertainty

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

Corporation Tax: extend first year allowance and lower emission thresholds for business cars

Measure description

This measure reduces the main rate threshold for capital allowances for cars from 130g/km to 110g/km CO_2, and extends first year allowances (FYAs) for ultra-low emission vehicles (ULEV) from 2018 until 2021 at the reduced emission threshold of 50g/km.

This measure will be effective from April 2018.

The tax base

The tax base is the expenditure qualifying for capital allowances at different rates based on emission bands expressed in g/km CO_2 - FYA (100% in first year), main rate (18%), or special rate (8%).

Static costing

The static costing is estimated by applying the pre- and post-measure emission thresholds to the tax base described above. Further assumptions are applied to account for sales price discounts, disposal patterns and the proportion of capital allowances that will be tax effective.

Static Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+5	+50	+100

Post-behavioural costing

The costing includes a behavioural effect to account for businesses choosing to purchase lower emission band cars to qualify for the FYA or the main rate.

Post-behavioural Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	+5	+35	+80

Areas of uncertainty

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

Corporation Tax: defer bringing forward payment for large groups for two years

Measure description

At Summer Budget 2015 it was announced that corporation tax (CT) payment dates for companies with profits in excess of £20m paying by quarterly instalments would be brought forward by four months, effective for accounting periods beginning on or after 1 April 2017. This measure puts back the change in due dates to accounting periods beginning on or after 1 April 2019. This will give businesses more time to prepare for the transition to the new payment schedule.

The tax base

The tax base for this measure is all companies paying CT by quarterly instalments and with annualised profits exceeding £20m, or a proportion of this amount for companies which are members of corporate groups.

Costing

The costing is estimated by taking the accruals tax base, as described above, and calculating when payments of this tax liability become due under both the previously announced timetable and the later start date. The difference between these two calculations gives the impact of this measure.

The differences in the effects on Exchequer revenues are a result of the timings of the accounting period dates.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-6,000	-3,850	+5,965	+3,600

Areas of uncertainty

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

Stamp Duty Land Tax for non-residential property: reform freehold and leasehold premium regime to slice and increase leasehold rate over £5m

Measure description

This measure reforms non-residential and mixed use Stamp Duty Land Tax (SDLT) on freehold and lease premium transactions (which involve an upfront payment) from a 'slab' rate system, where the tax is paid at a single rate on the entire transaction value, to a marginal 'slice' rate system where each new SDLT rate will only be payable on the portion of the property value which falls within each band. The new SDLT rates are as follows:

- £0-£150,000 – 0%
- £150,000-£250,000 – 2%
- Over £250,000 – 5%

It also introduces a new 2% marginal SDLT band for leasehold rent for non-residential and mixed use transactions where the net present value (NPV) of the rent is greater than £5m. The new SDLT rates on the NPV on leasehold rent are as follows:

- £0-£150,000 – 0%
- £150,000 - £5,000,000 – 1%
- Over £5,000,000 – 2%

This measure will be effective on and after 17 March 2016.

The tax base

Freehold and lease premiums: the tax base for this measure is comprised of all non-residential and mixed use freehold and lease premiums transactions in England, Wales and Northern Ireland.

Leasehold rent: the tax base for this measure is comprised of all non-residential and mixed use leasehold rent transactions in England, Wales and Northern Ireland.

The tax base is estimated using HMRC administrative data and grows over the forecast period in line with OBR Budget 2016 determinants for commercial property prices, commercial property transaction volumes and GDP growth.

Costing

The costing is estimated by calculating the difference in tax revenue between the pre- and post-measures tax regimes to the tax base described above.

The costing includes the following behavioural effects:

- This measure is expected to impact on the frequency of transactions. For transactions where the tax charge is lower than the previous SDLT system there is an expected increase in the volume of transactions, and for high-value properties adjustments for wider behavioural effects have been made.

- The costing also incorporates temporary behavioural effects around implementing the new system.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+385	+515	+535	+560	+590

Areas of uncertainty

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

Capital Gains Tax: reduce basic rate to 10% and main rate to 20% excluding residential property and carried interest

Measure description

This measure reduces the higher rate of Capital Gains Tax (CGT) from 28% to 20% and the basic rate from 18% to 10%. There will be an 8 percentage point surcharge on the new rates for carried interest and for gains on residential property. These changes will take effect for disposals made on or after 6 April 2016.

The tax base

The tax base consists of gains subject to the higher and basic rates of CGT, excluding residential property and gains relating to carried interest.

Costing

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

The costing accounts for behavioural responses, including greater realisation of gains, and increased incentive to take capital gains relative to income.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-105	-630	-605	-670	-735

Areas of uncertainty

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

Entrepreneurs Relief: extend to long-term investors in unlisted shares

Measure description

This measure extends entrepreneurs' relief (ER) to external investors in unlisted companies. The new rules will apply to newly issued shares purchased on or after 17 March 2016, providing they are held for a minimum of 3 years from 6 April 2016, and subject to a lifetime limit of £10 million of gains.

The tax base

The tax base consists of gains on newly issued, unlisted shares qualifying for ER under the new rules. The tax base grows over the forecast period in line with OBR Budget 16 forecasts.

Costing

The costing is estimated by applying the difference between the effective pre- and post-measure tax rates to the tax base described above.

The costing accounts for behavioural responses, including greater realisation of gains, and increased incentive to take capital gains relative to income.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	neg	+5	-25	-40	-60

Areas of uncertainty

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

Capital Gains Tax: lifetime limit under Employee Shareholder Status

Measure description

This measure introduces an individual lifetime limit of £100,000 on gains eligible for Capital Gains Tax exemption through the Employee Shareholder Status. This limit will apply for arrangements entered into on or after 17 March 2016.

The tax base

The tax base consists of estimated gains realised from shares acquired by an employee under ESS arrangements. The tax base grows over the forecast period in line with OBR Budget 2016 equity price forecasts.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. The costing accounts for a behavioural response by the population affected.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	+10	+35

Areas of uncertainty

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

Capital Gains Tax: extend reliefs

Measure description

This measure allows entrepreneurs' relief (ER) to be claimed in certain cases where relief ceased to be due as a result of changes in the Finance Act 2015. In particular, relief will be due, subject to conditions, on gains on the goodwill of a business when that business is transferred to a company controlled by five or fewer persons or by its directors. These changes will take effect for disposals made on or after 3 December 2014. This measure also provides for non-doms who become deemed-domiciled in April 2017 having been resident for 15 of the past 20 years to be able to treat the cost base of their non-UK based assets as being the market value of that asset on 6 April 2017.

The tax base

The tax base consists of gains that are now eligible for relief.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. Behavioural effects are expected to be small.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-45	-20	-40	-40	-40

Areas of uncertainty

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

Self Employed: abolish Class 2 NICs

Measure description

This measure will abolish Class 2 National Insurance contributions (NICs) and will introduce a contributory benefit test into Class 4 NICs. This will enable the self-employed to gain entitlement to contributory benefits through payment of Class 4 NICs.

This measure will be effective from April 2018.

The tax base

The tax base consists of self-employed individuals and is estimated via HMRC's personal tax model using Survey of Personal Incomes (SPI) base data for 2013-14, projected using the OBR Budget 2016 forecast.

Costing

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

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	-355	-360	-360

Areas of uncertainty

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

Sharing Economy: £1,000 allowance for both trading and property income

Measure description

This measure provides two £1,000 tax-free allowances for individuals: one for property income and one for trading income. Both of these allowances are optional and can be used at the same time if applicable. Individuals with property income or trading income below £1000 will no longer need to declare or pay tax on that income.

If an individual chooses to use the allowance, they will pay tax on the gross income less the value of the allowance, but they will no longer be able to deduct expenses for that income. If they do not use the allowance, the individual can continue to deduct their expenses for that income to calculate their taxable profits, as per the existing rules.

This measure will be effective from April 2017.

The tax base

The tax base for this costing is made up of those who declare self-employment trading or property income via Self-Assessment (SA) returns and those who declare small amounts of this type of income via PAYE. They have been identified using 2013-14 SA data and data from the Survey of Personal Income (SPI) and projected forward using OBR Budget 2016 determinants.

Costing

The costing is made up of the difference between the tax paid before and after applying the allowances for all who are eligible for it. An adjustment is made for take-up and compliance.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-15	-235	-195	-200

Areas of uncertainty

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

Oil and Gas: abolish Petroleum Revenue Tax and reduce Supplementary Charge to 10%

Measure description

This measure supports investment in the upstream oil and gas sector through:

- reducing permanently the rate of the Petroleum Revenue Tax (PRT) from 35% to 0%,
- reducing the rate of the Supplementary Charge (SC) from 20% to 10%, and
- enabling changes to be made to the Investment and Cluster Area Allowances to allow tariff income to activate the allowance.

The measure to reduce the rate of PRT and SC will be effective from 1 January 2016.

The measure to enable changes to Investment and Cluster Area Allowances will be effective from Royal Assent, to be delivered through secondary legislation later in 2016.

The tax base

The tax base comprises of 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 which uses survey information provided by operating companies. The tax base grows over the forecast period in line with OBR Budget 2016 forecasts for production, expenditure and oil and gas prices. There are approximately 200 companies carrying out exploration and production from around 400 active oil and gas fields.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. The current tax regime is used to provide a pre-measures forecast of offshore corporation tax and PRT receipts. This is then compared with the forecast following the policy change.

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

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-165	-265	-225	-155	-200

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base. The costing is sensitive to future shifts in oil prices and production and investment levels.

Business Energy: abolish Carbon Reduction Commitment and offsetting increase to Climate Change Levy

Measure description

This measure ends the Carbon Reduction Commitment (CRC) energy efficiency scheme following the 2018-19 compliance year, such that no purchase of allowances is required to cover emissions for energy used from April 2019.

This measure also increases the rates of the Climate Change Levy (CCL) from 2019-20 while updating the electricity/gas ratio to 2.5:1, to reflect recent data on the fuel mix used in electricity generation. The rates for liquefied petroleum gas and other taxable commodities will maintain their current ratios to gas.

Climate Change Agreement (CCA) discounts will be adjusted accordingly to ensure that rates for CCA participants will be unaffected by this policy.

The tax base

The tax base consists of all taxable commodities covered by the CCL. This grows over the forecast period using the OBR Budget 2016 CCL forecast. The costing accounts for the impacts of a new reporting system to be introduced in 2019 that will reduce the tax base for CCL.

Costing

The costing is calculated by multiplying the tax base by the difference between the pre-and post-measure CCL tax rates. Revenue lost from CRC closure is calculated by multiplying the quantity of emissions forecast by projected allowance prices. The revenues associated with each CRC compliance year accrue when allowances are surrendered, which takes place in the following financial year.

The costing includes a behavioural effect to account for a potential reduction in demand in response to the impact on energy prices.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	+425	+35

Areas of uncertainty

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

Carbon Price Support Rate: cap at £18/tCO_2 in April 2019 and uprate in April 2020

Measure description

This measure continues to cap the Carbon Price Support (CPS) rates at £18/tCO_2 to 2019-20. For 2020-21, the cap will be maintained in real terms and set at £18/tCO_2 then uprated by RPI.

This measure will be effective from 1 April 2020.

The tax base

The tax base for this measure is fossil fuels burned by major power producers to generate electricity and combined heat and power installations producing electricity that is not used on site. The tax base is estimated using modelling from the Department of Energy & Climate Change, and grows in line with OBR Budget 2016 determinants for GDP, inflation, exchange rates, and oil and gas prices.

Costing

The costing is calculated by multiplying the above tax base by the difference between the pre- and post-measure CPS tax rates. The individual commodity tax rates are calculated using emissions factors published by the Department for Environment, Food & Rural Affairs.

The costing includes a behavioural effect to account for a change in the generation mix used in generating electricity as high carbon intensive fuels become more expensive compared to low carbon intensive fuels.

Exchequer impact (£m)

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

Areas of uncertainty

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

Corporation Tax: update technologies with access to enhanced capital allowances

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 affected technologies and products, and is estimated using data from the Department of Energy and Climate Change and the Department for Environment, Food and Rural Affairs.

Costing

The costing is estimated by applying the first-year allowance at 100% to the tax base, compared with the main rate at 18% or special rate at 8% capital allowances it would otherwise be eligible for. 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)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	neg	+5	+5	+5	+5

Areas of uncertainty

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

Disguised remuneration: tackling historic and new schemes

Measure description

This measure tackles the current and historic use of disguised remuneration schemes, which are used to avoid income tax and National Insurance contributions. These schemes often involve individuals being paid in loans through structures such as Employee Benefit Trusts.

This measure will create a new tax charge on historic loans from disguised remuneration avoidance schemes that remain unpaid on 5 April 2019. It will also address current usage by strengthening the current legislation. A transitional relief on investment growth will also be withdrawn.

The change to current legislation and the withdrawal of the transitional relief will be effective from 2016-17, with the remainder coming into force in later years.

The tax base

The tax base consists of historic tax due from use of these avoidance schemes and use anticipated in the future in the absence of a policy change. The yield excludes revenue that is expected to be collected from Accelerated Payment Notices.

Costing

The costing is estimated by determining the value of the tax base described above. The costing accounts for people being unable to pay, as well as those who move to other forms of tax planning. It also accounts for a small proportion of previously unidentified cases coming forward.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+100	+335	+645	+1,235	+215

Areas of uncertainty

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

Off-payroll working: transfer liability to public sector employers

Measure description

This measure will move the liability to determine whether or not the intermediaries rules apply, and the liability to employment taxes, to the engager of an intermediary rather than on the intermediary itself. This change will only apply to engagements with public sector end-clients, both direct and through agencies or other third parties. The government proposes to apply the change to public sector bodies as defined in the Freedom of Information Act 2000.

This measure will be effective from April 2017.

The tax base

The tax base consists of the taxable income of all intermediaries from contracts with public sector clients that are in scope of the existing intermediaries legislation. The tax base grows over the forecast period using forecast growth in the stock of relevant micro-sized companies.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. It assumes that for contracts covered by the legislation the deemed employment payment calculation is applied including using the flat rate 5% expenses allowance in all cases.

The costing accounts for a behavioural response whereby some of those affected may cease to operate as the owner/director of a limited company.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+265	+65	+105	+120

Areas of uncertainty

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

Loans to participators: align rates with dividend higher rate

Measure description

This measure increases the rate of tax payable by close companies under the loans to participators rules from 25% to 32.5% in line with dividend tax rates. The loans to participators rules aim to prevent owners of close companies avoiding personal tax by remunerating themselves through loans or advances that are not repaid, or other arrangements, rather than taking dividends or salary.

The loans to participators tax rate will be increased in April 2016, with effect for loans, advances and arrangements made on or after 6 April 2016.

The tax base

The tax base consists of tax payable by close companies on loans to, and benefits conferred on their participators. The tax base grows over the forecast period in line with OBR Budget 2016 forecast for UK GDP.

Costing

The costing has been derived by applying the increased rate to the tax base described above. The costing also allows for behavioural responses by the groups affected as they seek to mitigate the impact of the new rate.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+15	+80	+80	+70	+65

Areas of uncertainty

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

Removing employer tax advantage of different forms of remuneration: pay-offs over £30,000

Measure description

This measure tightens the scope of the income tax exemption for termination payments, and applies employer National Insurance contributions to all termination payments over £30,000 where income tax is currently due.

This measure will be effective from April 2018.

The tax base

The tax base consists of termination payments being received by individuals.

The tax base grows over the forecast period in line with OBR Budget 2016 determinants for average wages and salaries.

Costing

The costing is estimated by modelling the impact on the tax base of reforming the taxation rules for termination payments and introducing a charge for employer National Insurance on relevant termination payments over £30,000.

The costing accounts for a behavioural response from the impacted population.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+45	+420	+470	+485

Areas of uncertainty

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

Offshore Property Developers: tackle avoidance and evasion

Measure description

This measure ensures that trading profits from developing UK land are always subject to UK tax by introducing specific rules to tax the full amount of such profits whether or not the person to whom they arise is UK resident.

This measure will be effective from the Report Stage of Finance Bill 2016.

The tax base

The tax base consists of the trading profits of non-resident developers of UK land. This has been estimated using HMRC operational data including information on large property developments. The tax base grows over the forecast period in line with OBR Budget 2016 determinants.

Costing

The costing is estimated by applying the corporation tax rates to the tax base described above. The costing allows for a number of behavioural responses by the businesses affected as they seek to mitigate the impact of the new rules.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+130	+435	+550	+640	+520

Areas of uncertainty

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

Stamp Duty Land Tax on additional properties: exemptions

Measure description

This measure clarifies several aspects of the policy design of the Spending Review and Autumn Statement 2015 measure that introduced 3% higher Stamp Duty Land Tax (SDLT) rates on the purchase of additional residential properties. The main impacts are from:

- providing a transitional relief for transactions which exchanged contracts before the 26 November 2015 and completed after 1 April 2016;
- removing an exemption from the higher rates for purchases made by significant investors, including corporates and funds owning more than 15 residential properties, and,
- extending the period where purchasers can claim a refund from the higher rates, or before the higher rates will apply (in the event that there is a period of overlap or gap in ownership of a main residence) from 18 months to 36 months.

The measure will be effective from 1 April 2016.

The tax base

The original Spending Review and Autumn Statement 2015 tax base was estimated by combining data from the Council of Mortgage Lenders, Council Tax and Census 2011. This measure changes the size of this original tax base and is estimated using HMRC administrative data from SDLT returns.

The tax base is grown over the forecast horizon using the OBR Budget 2016 forecasts for residential SDLT revenue, residential transactions and average house prices.

Costing

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

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+45	+55	+60	+65	+70

Areas of uncertainty

The main uncertainties in this costing are broadly the same as in the original measure and relate to the size of the tax base and behavioural response.

Corporation Tax: removing the renewals allowance

Measure description

The measure will repeal the Renewals Allowance. The Renewals Allowance is currently available as a revenue deduction for small capital items such as tools.

This measure will have immediate effect from Budget 2016.

The tax base

The tax base is the expenditure currently made on renewed items that will now be eligible for capital allowances.

Costing

The costing is calculated by applying the tax rate and capital allowances rates to the tax base described above.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+5	+5	+5	+5	+5

Areas of uncertainty

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

Value Added Tax: tackling overseas trader evasion

Measure description

This measure aims to tackle VAT evasion by non-EU traders who sell through online marketplaces and store goods in UK fulfilment houses prior to sale to UK customers via the internet by:

- giving HMRC powers to direct overseas businesses to appoint a UK VAT representative with joint and several liability. It also provides for powers to make online marketplaces jointly and severally liable for VAT unpaid by non-EU online sellers who do not comply with HMRC direction. These new powers will be effective following Royal Assent of the Finance Bill 2016.

- setting up a Fulfilment House Due Diligence Scheme. This measure will be effective from 2018-19 and will set out 'fit and proper' standards that fulfilment houses will need to meet in order to operate. They will also have to evidence the due diligence they have undertaken to ensure overseas clients are following VAT rules.

The tax base

The tax base consists of the estimated total value of under-declared imported goods from outside of the EU. The tax base grows over the forecast period using the OBR Budget 2016 VAT receipts forecast.

Estimates have been derived from UK import data, supplemented with operational data and other intelligence to identify high risk imports, the proportion of goods undervalued, and the extent of the undervaluation.

Costing

The costing for this policy is estimated by applying the pre- and post-measure tax regimes to the tax base described above. The costing accounts for a behavioural response whereby some non-EU online sellers or fulfilment houses may find ways to mitigate the impact of this measure.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+65	+130	+315	+365

Areas of uncertainty

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

Value Added Tax: extend reverse charge to electronic communications services

Measure description

This measure introduced a domestic reverse charge to tackle Missing Trader Intra Community (MTIC) fraud. MTIC fraud is where fraudsters charge and receive VAT on their supplies and then go missing instead of paying the VAT over to the Exchequer.

This measure makes the business customer liable to account for the VAT due rather than the supplier. The reverse charge will only apply to the wholesale services of routing telephone calls and associated data such as texts and images over landlines, mobile networks or the internet. It does not affect consumption supplies.

This measure was announced on 11 January 2016 and introduced by Treasury Order on 1 February 2016.

The tax base

The tax base consists of unpaid VAT on wholesale supplies of electronic communications services (ECS). VAT Information Exchange System data is used to calculate ECS MTIC fraud.

Costing

The costing is the value of the tax base as the reverse charge will eliminate the opportunity to undertake this specific type of fraud. The costing also takes into account the behavioural response of fraudsters finding ways to displace this fraud into other goods or services.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+115	+105	+90	+75	+60

Areas of uncertainty

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

Gambling Duties: reform treatment of freeplays

Measure description

This measure broadens the tax base of the Remote Gaming Duty (RGD) by making the full value of discounted or free stakes ('freeplays') offered by operators taxable. The measure also ensures that any freeplays given as a prize have no value when calculating gross profits for tax purposes.

This measure will be effective from 1 August 2017.

The tax base

The tax base is the gross profits of the operators in the RGD regime. The measure broadens the tax base to include the full value of free or discounted plays. The tax base grows over the forecast period in line with OBR Budget 2016 gambling forecasts.

Costing

The costing is estimated by applying the existing tax rates to the broadened tax base under the option and then calculating the difference.

The costing includes a behavioural effect to account for a change in the marketing strategy of affected operators as well as the potential for firms finding ways to mitigate the impacts of the measure.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-20	+45	+90	+100	+110

Areas of uncertainty

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

Asset Managers: reform treatment of performance awards

Measure description

This measure aims to ensure that individuals who manage collective investment schemes, where the underlying activities are more aligned with trading (short-term) than investing activities (long-term), start to pay full income tax on any performance fee/carried interest they receive. This will be applied by reference to an investment fund's average holding period across its investments. Depending on this, a proportion of the carried interest will be deemed income and charged income tax and National Insurance contributions, with the remaining proportion being eligible for Capital Gains Tax (CGT) treatment.

This measure will be effective from April 2016.

The tax base

The tax base comprises carried interest returns on which investment fund managers pay CGT. The tax base grows over the forecast period in line with OBR Budget 2016 forecasts for equity and property prices.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. This is the difference between the CGT tax rate (pre-measures regime) and a higher effective rate on capital gains based on the average holding period (post-measures regime). The costing uses estimates of the average holding period for investment managers and applies the relevant effective tax rate to estimate the change in yield.

The costing accounts for a behavioural response by the affected population.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+15	+210	+115	+90	+65

Areas of uncertainty

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

Border Force: illicit tobacco strategy

Measure description

This measure provides Border Force with additional officers who will be dedicated to searching for illicit tobacco products. This will involve recruiting additional staff to expand business as usual activity as well as undertaking a range of new initiatives.

This measure will be fully operational by December 2016.

The tax base

The tax base is the estimated size of the market for illicit tobacco and the tax revenue foregone. This is estimated using Home Office performance data, HMRC administrative data, and tax gap estimates.

Costing

This costing is calculated by determining the proportion of the illicit tobacco market that will be targeted by the new teams within Border Force.

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

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-5	+20	+25	+30	+45

Areas of uncertainty

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

Landfill Tax: tackling waste crime

Measure description

This measure will deploy additional HMRC resource to increase compliance activity across the waste supply chain and support delivery of HMRC's Landfill Tax compliance strategy.

This measure will be effective from October 2016.

The tax base

The tax base is based on historic performance of compliance staff working on similar excise compliance work and grows in line with OBR Budget 2016 determinants.

Costing

The costing is based on compliance yield per full-time equivalent.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+5	+10	+20	+30

Areas of uncertainty

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

Tax Free Childcare and Employer Supported Childcare: updated roll-out and grandfathering

Measure description

Tax-Free Childcare (TFC) will commence in early 2017.

This measure updates the detail of a phased rollout so that from early 2017, TFC will be progressively rolled out to parents, allowing those parents with the youngest children to become eligible first. All other families becoming eligible by the end of 2017.

In addition, Employer-Supported Childcare (ESC) will remain open to families who wish to join schemes providing childcare vouchers and directly-contracted childcare until April 2018. It was previously due to close to new entrants when TFC is launched.

The tax base

The TFC tax base consists of all families eligible for TFC. The tax base grows over the forecast period using the TFC forecasting model, which is consistent with the OBR Budget 2016 forecast. The ESC tax base consists of all employees eligible for ESC. The tax base grows over the forecast period using the ESC model, which is consistent with the OBR Budget 2016 forecast.

Costing

The costing is calculated by identifying monthly TFC costs for families based on the age of the youngest child and reallocating them based on the new rollout. The costing also takes into account employees who will choose to join ESC schemes as income tax and National Insurance contributions relief is available for longer.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+20	-35	-155	-120	-85

Areas of uncertainty

The main uncertainty in this costing relates to the size of the tax base, which is estimated using survey data from the Family Resource Survey.

DWP operational measures – use of RTI

Measure description

This measure extends the use of Real Time Information (RTI) data to claims for Income Support (IS), Jobseeker's Allowance (JSA) and Employment and Support Allowance (ESA). This policy will aim to prevent errors relating to incorrect earnings and occupational pension payments occurring by allowing Department for Work and Pensions (DWP) operational staff to access RTI when someone makes a claim and as soon as a change of circumstance is detected. This measure is effective from September 2016 for ESA and from April 2017 for IS and JSA.

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 2013-14 which includes a breakdown of the amount of benefit overpaid by cause of overpayment, and
- 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 and value of benefit adjustments that DWP are expected to make each month as a result of the RTI match. This is multiplied by the average duration of overpayments had they not been corrected. An adjustment is made to allow for the migration to Universal Credit.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	neg	+30	+35	+20	+10

Areas of uncertainty

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

DWP operational measures - ESA and PIP Presenting Officers

Measure description

This measure increases the number of Department for Work and Pensions (DWP) Presenting Officers attending First tier Tribunals (FtT) from 2017. A FtT is a independent tribunal that provides a hearing for appeals against Employment and Support Allowance (ESA) and Personal Independence Payment (PIP) awards. Presenting Officers assist the FtT in making decisions on PIP and ESA appeals by explaining the legal basis for the appeal, the department's case for upholding the original decision and by drawing the tribunal's attention to any new relevant evidence.

The cost base

The cost base is estimated using administrative data from DWP and HM Courts & Tribunals Service (HMCTS) for ESA and PIP appeal overturn rates and forecast volumes of ESA and PIP appeals.

Costing

Evidence from HMCTS administrative data and from pilots conducted by DWP show a reduction in appeal overturn rates when DWP has a presenting officer in attendance. This costing estimates savings from the volume of decisions which will be upheld as a result of increasing the deployment of Presenting Officers at appeal tribunals.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+5	+25	+35	+25	+20

Areas of uncertainty

The main uncertainty in the costing relate to the volume of appeals as PIP rollout is completed, and the remaining stock of DLA claimants are reassessed.

Fuel Duty: freeze in April 2016

Measure description

This measure freezes the main rate of fuel duty at 57.95 pence per litre for 2016-17.

The tax base

The tax base is every litre of taxable fuel that is made available for use in the UK. The projected volumes for petrol and diesel are taken directly from the fuel duty forecasting model.

Costing

The costing is calculated by taking the forecast baseline and applying the difference in the forecast and policy duty rates.

Behavioural responses were included to take into account the increase in consumption in response to lower fuel price increases. For a 1% reduction in pump prices, the model assumes a short-term 0.07% increase in the quantity of fuel consumed which increases to 0.13 as consumers react to the price change. This decreases the overall Exchequer impact.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-440	-435	-445	-445	-450

Areas of uncertainty

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

Alcohol Duty: freeze for beer, spirits and cider

Measure description

This measure makes the following duty rate changes:

- freezes the duty rates on beer this year;
- freezes the duty rate on spirits this year;
- freezes the duty rates on most ciders this year;
- increases the duty rates on most wines and higher strength sparkling cider by the retail price index (RPI) from 21 March 2016.

The tax base

The tax base for this measure is alcohol clearances. Alcohol duty is payable on an alcohol product at the point at which it is released for consumption onto the UK market, also referred to as alcohol clearance. Forecast annual clearances are estimated using the OBR Budget 2016 alcohol duty receipts forecast.

Costing

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

A behavioural adjustment is made to take into account changes in the consumption of alcohol in response to a price change. The impact depends on the proportion of the 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 published in HMRC Working Paper 16 "Estimation of price elasticities of demand for alcohol in the UK".

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-85	-85	-85	-85	-85

Areas of uncertainty

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

Heavy Goods Vehicles: freeze VED and Road User Levy

Measure description

This measure freezes all heavy good vehicles (HGV) Road User Levy rates at 2015-16 levels. This measure will be effective from April 2016.

The tax base

The tax base consists of the stock of vehicles liable for HGV Road User Levy. From national statistical data, the number of UK based HGVs totalled 473,900 in 2014. Visiting HGVs are also liable to the Levy for the time that they are in the UK, and in 2014 there were 1,973,000 visits by foreign registered HGVs.

The tax base grows over the forecast period in line with national statistical data on the average annual growth in the stock of UK based vehicles over the last decade. It is assumed that the composition of visiting HGVs, in terms of their maximum authorised weight and visit frequency, remains stable over the forecast horizon.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. There are no behavioural impacts expected as a result of this measure.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-5	-5	-5	-5	-5

Areas of uncertainty

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

Hand-rolling Tobacco: increase by RPI+5%

Measure description

This measure increases specific duty on Hand Rolling Tobacco by 3 percentage points above the pre-announced duty rate increase to RPI+5%.

This measure will be effective from 6pm on 16 March 2016.

The tax base

The tax base is composed of tobacco cleared into the UK market. This is forecast in line with the OBR Budget 2016 forecast for tobacco duty revenues and announced policy (RPI+2% increases through the end of Parliament, as announced at Budget 2014).

Costing

The costing is determined by applying the new duty rates to the tax base.

The costing includes a behavioural effect to account for the reduction in consumption resulting from higher prices.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+10	+10	+10	+10	+10

Areas of uncertainty

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

Aggregates Levy: freeze rates

Measure description

This measure freezes the aggregates levy at £2 per tonne in 2016-17. This measure will be effective from April 2016.

The tax base

The tax base is the tonnage of rock, sand and gravel commercially exploited in the UK. The tax base is estimated using the OBR Budget 2016 forecast for aggregates output. This forecast is dependent on the lagged duty rate, seasonal variation, and a longer term trend.

Taxable tonnage was 155m in 2014-15, the latest year for which outturn data are available. For 2016-17 the tax base is estimated to be around 140m tonnes.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. No behavioural effect is assumed because taxable aggregates are inelastic.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-5	-5	-5	-5	-5

Areas of uncertainty

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

Package Recycling Target: reform

Measure description

Packaging (Export) Recovery Notes P(E)RNs are used to implement statutory packaging recycling targets under the EU Packaging Directive. Producers and handlers of packaging materials buy PRNs to show evidence of recycling of packaging waste to achieve statutory targets. Targets and associated PRNs are material-specific and denoted in tonnes. Packaging material is assumed to divert from landfill to recycling leading to a small impact on landfill tax receipts.

This measure reduces statutory plastic packaging recycling targets for 2016 and 2017 and sets new recycling targets for glass and plastic packaging for 2018, 2019 and 2020. For plastic, the existing target will be reduced to 49% for 2016 and then increased by 2% each year to 2020, to 57%. For glass, the existing target of 77% will be maintained until 2017 and then increased by 1% each year to 2020, to 80%.

The cost base

This measure, by changing targets for the tonnage of materials being recycled, is predicted to lead to an equivalent change in the amount of materials sent to landfill. A change in the total amount of tonnage sent to landfill has an impact on landfill tax revenue. The impact of this measure on landfill tax receipts is calculated based on government projections of waste arisings which do not currently account for changes to recycling targets.

Costing

The increase in landfill tax revenues is calculated by multiplying additional tonnes of material sent to landfill with landfill tax per tonne, under the assumption that tonnage that is not recycled is sent to landfill.

The marginal tonnages diverted to, or from, landfill have been worked out by comparing the effect of the new recycling targets, previous recycling targets and the EU minimum targets, to the projected packaging waste arising.

This costing assumes RPI increases in Landfill Tax over the period.

Exchequer impact (£m)

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

Areas of uncertainty

The estimates presented here are subject to a small degree of uncertainty: they assume that all the recycling carried out as a result of the new targets gets diverted to, or from, landfill, rather than incineration.

Insurance Premium Tax: increase by 0.5%

Measure description

The standard rate of Insurance Premium Tax (IPT) is currently set at 9.5%. This measure increases the standard rate of IPT to 10% whilst allowing for a four month concessionary period from that date.

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. The tax base grows over the forecast period in line with the OBR Budget 2016 forecast for IPT.

Costing

The Exchequer impact is calculated by applying the post-measure tax rate to the forecast tax base. This is then adjusted for behavioural responses resulting from any change associated to prices of general insurance products.

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)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+80	+200	+205	+205	+210

Areas of uncertainty

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

Enterprise Zones: extend enhanced capital allowances

Measure description

This measure extends the current time limit for claiming the enhanced capital allowance (ECA) in Enterprise Zones to eight years from the date of announcement. The affected businesses would otherwise receive the main rate (18%) or special rate (8%) capital allowances. This measure will be effective from April 2016.

The tax base

The tax base is the expenditure which will qualify for the 100% ECA. This has been estimated using data from Local Enterprise Partnerships (LEPs).

Costing

The costing is estimated by applying the ECA at 100% to the tax base, compared with the main rate or special rate capital allowances it would otherwise be eligible for. A further adjustment is made to account for the proportion of capital allowances that will be tax effective.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	0	-5

Areas of uncertainty

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

Local Government Assets: receipts flexibility

Measure description

Currently, the capital finance system restricts how capital receipts can be spent. Broadly, the rule is that capital receipts can only be used to finance capital spending, not revenue spending.

This measure will give local authorities flexibility to spend capital receipts from new asset sales on the revenue costs of reform projects, subject to the restrictions set out in the direction issued by the Secretary of State for Communities and Local Government on 11 March 2016.

The cost base

The cost base is taken from the OBR Budget 2016 forecast of Local Authority Self-Financed Expenditure.

Costing

The costing note assumes that local authorities will take up the flexibility, and that the level of take-up will be driven by the level of demand for reform projects. The costing note assumes that local authorities will sell additional assets as a results of the flexibility to enable reforms.

The assumptions on increased asset sales are also supported by the wider package on local authority assets that was announced at the Spending Review and Autumn Statement 2015, but had not been included in the underlying forecast. Local authorities can only use the flexibility to fund projects that are forecast to generate ongoing revenue savings and/or transform services where this is forecast to reduce cost/demand for services for the public sector. The costing therefore assumes that this leads to efficiency savings and, combined with the increase in asset sales, results in savings to the Exchequer.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+100	+250	+380	+380	+190

Areas of uncertainty

The main uncertainties are around local authorities' demand for funding that would be eligible for this flexibility, the value of efficiency savings it will unlock, and the amount of additional asset sales.

Help to Save

Measure description

This measure introduces a new savings scheme for people on low incomes. Participants will be able to save up to £50 a month into a Help to Save account and receive a 50% government bonus after two years. Account holders can then choose to continue saving under the scheme for a further two years. This measure will be effective no later than April 2018.

The tax base

The tax base has two parts. One part of the tax base consists of the savings of all adults within a household claiming Working Tax Credit but not those households claiming Child Tax Credit only. The other part of the tax base consists of the savings of all adults within a household claiming Universal Credit and that household's income is greater than 16 times the National Living Wage (per week). It is estimated that the scheme will be open to 3.5m individuals when it comes into force.

Costing

The costing is estimated by applying a take-up rate to the eligible customers described in the tax base and multiplying by the average match. The average match is derived from government savings pilots and academic studies.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	-20	-70

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response. Notably the level of take-up amongst customers and their average contribution levels.

Right to Buy: pilots

Measure description

This measure pilots the voluntary Right to Buy with five housing associations, to inform the design of the final scheme.

The cost base

The cost base is the OBR Budget 2016 forecast for housing association projected income and expenditure.

Costing

The costing is calculated by estimating receipts from sales of houses under the pilot, from which spending by housing associations on additional units is deducted. Voluntary Right to Buy sale prices are estimated from the Market Value Survey and uprated using the OBR Budget 2016 house price growth assumptions. Discounts are estimated by applying average discount rates from local authority Right to Buy sales to housing association estimated house prices.

Costs of additional units are in line with the OBR's Budget 2016 housing association model.

Exchequer impact (£m)

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

Areas of uncertainty

The main uncertainties in the costing relate to sale prices and discount rates. Prices have been uprated in line with average house price increases, but may increase more slowly than average. Discount rates may also be lower than estimated due to a different mix of sale prices or tenures of housing association tenants.

Personal Independence Payments: aids and appliances

Measure description

Currently, use of an aid or appliance attracts two points against seven of the Daily Living activities assessed. The Secretary of State for Work and Pensions announced on 11 March that the aids and appliance points would be halved against two of these activities. This change only affects the way entitlement to the Daily Living component is determined. It will apply to new PIP joiners from January 2017 and to the existing PIP caseload at their next award review after January 2017.

The cost base

The OBR Budget 2016 forecasts of PIP caseloads and PIP administrative data have been used to estimate the impact of this measure.

Costing

The proportion of PIP claimants affected by this measure has been estimated using PIP administrative data. This data has been used to calculate the proportion of the PIP caseload who would either move from enhanced to the standard rate of Daily Living or lose entitlement to the Daily Living component completely as a result of a the measure. The costing is derived by multiplying the forecast PIP caseload by the relevant weekly rates of PIP.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	+15	+590	+1,190	+1,300	+1,280

Areas of uncertainty

There is uncertainty associated with the behavioural response.

Pay to Stay: make voluntary for housing associations

Measure description

Summer Budget announced that, from 2017-18, social landlords will be required to charge high-income social tenants in England a market, or near market rent.

This measure makes the implementation of Pay to Stay voluntary for housing associations.

The cost base

The cost base is estimated using data on social tenants' household incomes from the Family Resources Survey. Social rents are sourced from the Department for Communities and Local Government administrative data. The cost base also reflects the OBR Budget 2016 forecast for Housing Benefit expenditure on high-income social tenants.

Costing

The costing is calculated by applying assumptions about take-up of the policy by housing associations to the original costing. Consistent with the OBR's Budget 2016 housing association model, we have assumed housing associations that apply the Pay to Stay policy borrow against their rental income. Lower take-up as a result of making the policy voluntary leads to less borrowing.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	+315	+290	+350	+405

Areas of uncertainty

The main uncertainty in the costing relates to the take-up of the policy by housing associations.

Pay to Stay: introduce taper

Measure description

Summer Budget announced that, from 2017-18, social landlords will be required to charge high-income social tenants in England a market, or near market rent.

This measure introduces a taper above the Pay to Stay minimum income thresholds of £40,000 in London and £30,000 outside of London.

The cost base

The cost base is estimated using data on social tenants' household incomes from the Family Resources Survey. Social rents are sourced from Department for Communities and Local Government administrative data. The cost base also reflects the OBR Budget 2016 forecast for Housing Benefit expenditure on high-income social tenants.

Costing

The costing assumes that the additional rent to be paid by high-income social tenants varies on a continuous basis above the minimum income thresholds, and uses labour supply elasticities to estimate the labour supply response.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	-90	-85	-90	-100

Areas of uncertainty

The main uncertainty in the costing relates to the design of the taper, and the behavioural responses of tenants.

Social Rent downrating: one year deferral for supported housing

Measure description

This measure defers the 1% annual reduction in social rents announced at the Summer Budget for the supported housing sector. The reduction will not apply to supported housing, community land trusts and co-ops in 2016-17. The costing assumes that rents in these types of accommodation will then be reduced by 1% per annum for three years, from 2017-18 to 2019-20.

The cost base

The costing uses data from the Homes and Communities Agency Statistical Data Return, and continuous recording of social lettings data to estimate the number, rents, and Housing Benefit claim of the relevant types of accommodation.

Costing

The costing is calculated by comparing average Housing Benefit claims for accommodation in scope of the deferral under a scenario in which rents increase by the Consumer Price Index + 1% in 2016-17 and then decrease by 1% for three years, against a scenario in which rents decrease at 1% per year for four years. The cost of this measure is the difference between these two scenarios.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-15	-20	-20	-25	-25

Areas of uncertainty

The main uncertainties in this costing relate to the behavioural response of housing associations to the policy.

Benefit Cap: exemption for recipients of carers and guardians allowance

Measure description

This measure exempts all households who are entitled to carers allowance (CA) and guardians allowance (GA) from the benefit cap of £20,000 (£13,400 for single adults with no children) outside of Greater London and £23,000 (£15,410 for single adults with no children) in Greater London.

The cost base

The data used to estimate savings is based on benefit and tax credit administrative data from the Department for Work and Pensions and HMRC. 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 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 Universal Credit it is their total award that is capped and the savings from this which are recorded.

The cost for the new exemption is calculated by removing households with an entitlement to CA and GA from the benefit cap caseload, and calculating the difference from the projected savings that would be scored were these households included.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	-10	-20	-20	-20	-20

Areas of uncertainty

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

Local Housing Allowance: implement for new tenancies from April 2017

Measure description

The Spending Review and Autumn Statement 2015 announced that Housing Benefit awards in the social rented sector would be capped at the applicable private sector rate. This is effective from April 2018, affecting all new tenancies from 1 April 2016.

This measure changes the date from which this policy affects new tenancies in supported accommodation, deferring it by one year, to April 2017.

The cost base

The cost base is estimated using the OBR's Budget 2016 forecast of Housing Benefit expenditure in the social rented sector.

Costing

Since the original policy applies to new tenancies the savings from the policy build up over time. This measure results in a delay in this build-up by one year for those in supported accommodation. As with the original policy, there are no significant behavioural responses included in the costing.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	-60	-25	-15

Areas of uncertainty

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

Public Service Pensions: update to discount rate

Measure description

This measure changes the discount rate used to set employer contribution rates in the unfunded public service pension schemes. The measures changes the discount rate from 3% to 2.8%, to reflect the OBR's current long-term forecast of GDP growth. The discount rate was last set in 2011, at which point the Government committed to review the rate in 5 years.

The cost base

This measure is expected to increase the employer contributions made to the unfunded public service pension schemes by £2bn per annum from April 2019. This will produce an increase in Public Service Pension Scheme income from 2019-20. Payments to beneficiaries are unchanged by the measure. The overall impact is therefore a reduction in Public Service Pensions Scheme expenditure, the amount paid (or received in the event of a surplus) by the Exchequer to make up any difference between income and expenditure.

Costing

Using analysis completed by the HM Treasury advisory team at the Government Actuary's Department, this measure estimates the impact of the change to the discount rate on employer contributions for the unfunded public service pension schemes. The estimate is produced by applying the new discount rate to the 2012 valuation results of schemes. These calculations involve extrapolating the payroll and past service deficits in the scheme forward from 2012 to 2019. Based on these estimates, this measure is expected to increase employer contributions by £1,970m in 2019-20.

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact	0	0	0	+1,970	+2,005

Areas of uncertainty

This costing is estimated using the most recent valuations based on scheme data as at March 2012. Final results for employer contribution rates from April 2019 onward will use scheme data as at March 2016.

Doctoral Loans

Measure description

This measure announces that from 2018-19, doctoral loans of up to £25,000 will be available to any English student who can earn a place at a UK university but does not receive a Research Council living allowance.

Loan Take-Up Assumptions

The loan take-up assumptions are based on student intake data for 2014-15 provided by the Higher Education Statistics Agency.

The key assumptions in determining the take-up:

- A 3% growth per annum in full-time doctoral students and a static growth in part-time students based on a report from the Higher Education Funding Council for England assuming an income contingent loan had not been introduced.
- That 72% of the current eligible student population would choose to take out the loan. This is based on the fact that loan are intending to be a contribution towards costs.
- There is a 15% deferral impact assumed from 2017/18 to 2018/19 entry, based on analysis completed for master's loans.

Estimated loan take-up

Academic year	2016-17	2017-18	2018-19	2019-20	2020-21
Estimated number of students taking out a loan	0	0	10,400	10,300	11,500

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact (PSND)	0	0	-50	-115	-185

Areas of uncertainty

The main uncertainties in this costing relate to the estimated student number projections and the potential change in the proportion of part-time and full-time students.

Extension of Masters loans eligibility

Measure description

This measure extends the new income contingent £10,000 master's loan to cover 3 year part-time courses with no full-time equivalent.

Loan take-up assumptions

The loan take-up assumptions are based on student intake data for 2014-15 provided by the Higher Education Statistics Agency.

Key assumptions in determining overall take-up:

- An additional 3,200 students will take master's loans to support themselves on longer courses.
- A growth rate of 2% growth per annum in full-time students and 1% growth in part time students based on a report from the Higher Education Funding Council for England assuming an income contingent loan had not been introduced.
- That there will be a 15% uplift of students who wish to undertake master's study as a result of loan availability as used in the original costing note covering the introduction of the income contingent master's loan.

Estimated loan take-up

Academic year	2016-17	2017-18	2018-19	2019-20	2020-21
Number of additional students	3,200	3,300	3,300	3,400	3,500

Exchequer impact (£m)

	2016-17	2017-18	2018-19	2019-20	2020-21
Exchequer impact (PSNB)	0	0	0	+5	+5
Exchequer impact (PSND)	-10	-20	-20	-25	-30

Areas of uncertainty

There main uncertainties in the costing relate to the estimated student number projections and the size of the behavioural response to the provision of new support.

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 2016 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 2016-17 onwards
Income tax	Personal allowance[1]	Multiply the personal allowance from the previous tax year by CPI(%), and round up to the nearest £10. Add this figure to the previous year's personal allowance level.	The personal allowance will increase to £11,000 in April 2016, and £11,200 in April 2017.
	Basic Rate Limit	Multiply the personal allowance from the previous tax year by 100% + CPI(%), and round this figure up to the nearest £100.	The higher rate threshold, which is the sum of the personal allowance and the basic rate limit, will be set at £43,000 from April 2016, and £43,600 in April 2017.
	Personal savings allowance	Fixed at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers	
	Starting rate limit for savings income	CPI, increase rounded up to the nearest £10	
	Threshold for additional rate	Fixed at £150,000.	
	Income limit for tapered withdrawal of personal allowances	Fixed at £100,000.	
	Pensions Tax Relief - Annual allowance	Fixed at £40,000.	Fixed at £40,000.
	Pensions Tax Relief – Tapered Annual Allowance	N/A	Annual Allowance will be tapered for individuals with income over £150,000 (including pension contributions) from 6 April 2016.

[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 2016-17 onwards
	Pensions Tax Relief – Lifetime Allowance	Fixed at £1.25 million.	Lifetime Allowance will be reduced to £1 million from 6 April 2016, and then uprated with CPI from 6 April 2018.
	Individual Savings Accounts – annual subscription limit	In line with CPI, rounded to the nearest £120.	
	Individual income Threshold for High Income Child Benefit tax charge	Fixed at £50,000	
	Marriage tax allowance	Fixed at 10% of 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 Annual PT/LPL is weekly multiplied by 52.	
	Secondary Threshold	CPI rounded down to the nearest £1pw.	
	Upper Earnings Limit/ Upper Profits Limit	Aligned with income tax Higher Rate Threshold.	Aligned with income tax Higher Rate Threshold.
	Small Profits Threshold	CPI, increase rounded up to the nearest £10 and then added to previous year's exception.	Aligned with annual lower earnings limit from April 2018.
	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.	Fixed at £3000 from April 2016.
Capital gains tax	Main annual exempt amount	CPI, rounded up to the nearest £100.	
	Annual exempt amount for trustees	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 2020/21 (freeze at £325,000).

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2016-17 onwards
Working-age social security benefits and payments: Jobseeker's Allowance, Income Support, Employment and Support Allowance, Housing Benefit;	All main rates	September's CPI	The personal allowances of the working-age benefits; the ESA WRAG component and its UC equivalent; and Local Housing Allowances are frozen for four years from 2016/17. The disability and carer premiums in JSA, ESA, IS and Housing Benefit are exempt from this four year uprating freeze.
Disability Benefits: Disability Living Allowance; Attendance Allowance; Carer's Allowance; Incapacity Benefit; and ESA support group element and its UC equivalent.	All main rates.	September's CPI.	
Statutory payments: Statutory maternity pay; adoption pay; paternity pay; shared parental pay; and sick pay; Maternity Allowance; and Guardian's Allowance.	All main rates.	September's CPI.	
Basic State Pension	All categories	Highest of earnings, CPI or 2.5%.	
Additional State Pension	All elements	CPI.	
Pension Credit	Guarantee Credit	Earnings.	
	Savings Credit	Maximum Savings Credit award frozen in real terms.	The single rate of the Savings credit threshold increased by 5.8% and the couple rate by 5.5% in April 2016, with an associated reduction in the Maximum Savings Credit.
Child Tax Credit	Family element	Fixed at £545 per year.	Removed for new families from April 2017.

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2016-17 onwards
	Child element	September's CPI, rounded up to the nearest £5.	Four year uprating freeze from 2016/17.
	Disabled and enhanced disabled child elements	September's CPI, rounded up to the nearest £5.	
Working Tax Credit	Basic element, 30 hour element, second adult element, lone parent element	September's CPI, rounded up to the nearest £5.	Four year uprating freeze from 2016/17.
	Disability elements	September's CPI, rounded up to the nearest £5.	
	Maximum eligible childcare costs (for 1 and 2+ children)	Fixed at 70% of actual childcare costs of up to £175 a week for one child or £300 a week for two or more children	
Child Benefit	Eldest (or only) child and subsequent children amounts	September's CPI, rounded to the nearest 5p.	Four year uprating freeze from 2016/17.
Stamp duties	Stamp duty land tax thresholds for residential property	Fixed at £125,000, £250,000, £925,000 and £1,500,000	
	Stamp duty land tax thresholds for non-residential freehold and leasehold premium transactions	Fixed at £150,000 and £250,000	
	Stamp duty land tax thresholds for non-residential leasehold rent transactions	Fixed at £150,000 and £5,000,000	
Climate Change Levy	Levy amount	RPI.	Climate Change Levy main rates will increase in line with RPI from 1 April 2016.
Aggregates Levy	Levy amount	RPI.	
Landfill Tax	Tax rates	RPI, rounded to the nearest 5 pence.	The standard and lower rates of Landfill Tax will increase in line with RPI, rounded to the nearest 5 pence, from April 2016.
Vehicle Excise Duty	Duty rates	RPI, rounded to the nearest £1 or £5.	Rates for 2016-17 will increase by RPI on 1 April 2016.
Air Passenger Duty	Duty rates	RPI, rounded to the nearest £1.	Rates for 2016-17 will increase by RPI on 1 April 2016.

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2016-17 onwards
Tobacco Duties	Duty rates on all tobacco products	RPI.	Increase by 2 percentage points above RPI every year until the end of this Parliament.
Alcohol Duties	Beer, wine, spirits and cider duties.	RPI.	
Fuel Duties	Duty rates	RPI	
VAT	VAT registration threshold	RPI, rounded to the nearest £1,000.	
Gaming Duty	Gross gaming yield bands	RPI, rounded to the nearest £500.	
Business Rates	Business rates multiplier	RPI, rounded to the nearest 3 significant figures.	

Office for
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Certification of policy costings

B Budget 2016 policy decisions

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. In the run-up to each statement, the Government provides us with draft estimates of the cost or gain from each policy 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 scorecard. We choose whether to certify the costings as 'reasonable and central', and whether to include them – or alternative costings of our own – in our forecast.

B.2 In this forecast, we have certified all the costings of tax and annually managed expenditure (AME) measures that appear in the Government's main policy decisions scorecard as reasonable and central.

B.3 In November, we were unable to certify the financial transaction costing for the additional sale of RBS shares in 2020-21 as it was submitted more than three days after the mutually agreed deadline for us to be informed of new policies. We included it in our forecast on the basis that the calculation was relatively straightforward – at the prevailing share price the Government owned a sufficient number of shares to raise the £5.8 billion costing in 2020-21. We have subsequently certified the methodology, though the change in share price means the original costing is no longer plausible, which has been reflected in our new forecast.

B.4 The costings process worked reasonably efficiently, with fewer measures submitted just before the deadline than has been the case in recent fiscal events. However, as in November, there were a very large number of measures submitted for scrutiny.

B.5 Table B.1 reproduces the Treasury's scorecard, with further details set out in Chapter 4 and in the Treasury's *Budget 2016 policy costings document*, which summarises very briefly the methodologies used to produce each costing and the main areas of uncertainty within each.

B.6 In Box 4.3 of our November *EFO* we discussed the challenge of estimating interactions between HMRC-administered tax credits and DWP-administered benefits in the run-up to a fiscal event. In November, we made a large, but neutral, reallocation of spending between tax credits and universal credit to bring the treatment of the July measures into line with the approach in our baseline forecast.

B.7 During the challenge process for this forecast it was revealed that November's costing of the effect on DWP benefits spending of reversing July's tax credit measures had been estimated incorrectly. This was the second successive scorecard containing errors in welfare spending measures that affect both HMRC and DWP administered benefits – with July's errors mostly due to insufficient time for scrutiny and November's due to HMRC analysts not being permitted to discuss the costings with their DWP counterparts.

B.8 At future fiscal events, if similar circumstances were to arise we would be unlikely to certify packages of measures as 'reasonable and central'. We would return to the costings at the next fiscal event when they could be estimated using the full forecast models and discussed with all relevant analysts.

Uncertainty

B.9 In order to be transparent about the potential risks to our forecasts, we assign each certified costing a subjective uncertainty rating, shown 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. It is important to emphasise that, where we see a costing as particularly uncertain, we see risks lying to both sides of what we nonetheless judge to be a reasonable and central estimate.

Table B.1: Treasury scorecard of policy decisions and OBR assessment of the uncertainty of costings

		Head	2016-17	2017-18	2018-19	2019-20	2020-21	Uncertainty
Spending and efficiency								
1	Resource spending adjustment	Spend	0	0	0	+3,500	-	N/A
2	Capital spending: accelerate investment plans[3]	Spend	0	-760	-970	+1,585	+150	N/A
3	Public Service Pensions: update to discount rate	Spend	0	0	0	+1,970	+2,005	Medium-high
Personal Tax and Savings								
4	Personal Allowance: increase to £11,500 in April 2017	Tax	0	-1,665	-1,945	-1,945	-1,985	Medium
5	Higher Rate Threshold: increase to £45,000 in April 2017	Tax	0	-365	-595	-565	-600	Medium
6	Lifetime ISA and raise ISA limit to £20,000	Spend	*	-170	-330	-590	-850	Very high
7	Savings: remove witholding tax obligations	Tax	0	-260	-45	-100	-120	Medium-low
8	Financial Advice Markets Review: increase tax relief on employer provided pension advice	Tax	0	-10	-10	-5	*	High
Childhood Obesity and Education								
9	Soft Drinks Industry Levy	Tax	0	0	+520	+500	+455	Medium-high
10	Education: doubling the school sports premium	Spend	0	-110	-190	-190	-	N/A
11	Education: longer school day and breakfast clubs	Spend	-5	-85	-250	-350	-	N/A
12	Education: full academisation and accelerate transition to National Funding Formula	Spend	-75	-260	-195	-110	-	N/A
13	Education: Northern Powerhouse	Spend	-10	-25	-25	-20	-	N/A
14	Student Loans: postgraduate loans for part-time and distance learning	Spend	0	0	0	+5	+5	Medium-low
Business Tax								
15	Business Rates: permanently double the Small Business Rate Relief and extend thresholds	Tax	0	-1,575	-1,410	-1,420	-1,460	Medium-low
16	Business Rates: increase threshold for higher multiplier to £51,000	Tax	0	-125	-110	-110	-115	Medium-low
17	Business Rates: switch from RPI in April 2020	Tax	0	0	0	0	-370	Low
18	Corporation Tax: reduce to 17% in April 2020	Tax	0	0	0	-120	-945	Medium-low
19	Corporation Tax: restrict relief for interest	Tax	0	+920	+1,165	+995	+885	Medium-high
20	Corporation Tax: withholding tax on royalties	Tax	+210	+165	+115	+120	+125	Medium-high
21	Corporation Tax: extend scope of hybrid mismatch rules	Tax	+15	+265	+255	+215	+200	Medium-high
22	Corporation Tax: reform loss relief	Tax	0	+395	+415	+295	+255	High
23	Corporation Tax: further restrict use of banks' pre-2015 losses	Tax	+330	+520	+465	+375	+315	Medium-high
24	Corporation Tax: implement agreed patent box nexus approach	Tax	0	+15	+25	+35	+45	Medium
25	Corporation Tax: extend first year allowance and lower emission thresholds for business cars	Tax	0	0	+5	+35	+80	Medium
26	Corporation Tax: defer bringing forward payment for large groups for two years	Tax	0	-6,000	-3,850	+5,965	+3,600	Medium-low
27	Stamp Duty Land Tax for non-residential property: reform freehold and leasehold premium regime to slice and increase leasehold rate over £5m	Tax	+385	+515	+535	+560	+590	Medium-high

Enterprise								
28	Capital Gains Tax: reduce basic rate to 10% and main rate to 20% excluding residential property and carried interest	Tax	-105	-630	-605	-670	-735	Medium-high
29	Entrepreneurs Relief: extend to long-term investors in unlisted shares	Tax	*	+5	-25	-40	-60	Medium
30	Capital Gains Tax: lifetime limit under Employee Shareholder Status	Tax	0	0	0	+10	+35	High
31	Capital Gains Tax: extend reliefs	Tax	-45	-20	-40	-40	-40	Medium
32	Self Employed: abolish Class 2 NICs	Tax	0	0	-355	-360	-360	Medium
33	Sharing Economy: £1,000 allowance for both trading and property income	Tax	0	-15	-235	-195	-200	Medium-low
Energy and Environment								
34	Oil and Gas: abolish Petroleum Revenue Tax and reduce Supplementary Charge to 10%	Tax	-165	-265	-225	-155	-200	Medium-high
35	North Sea Seismic Survey	Spend	-15	0	0	0	-	N/A
36	Business Energy: abolish Carbon Reduction Commitment and offsetting increase to Climate Change Levy	Tax	0	0	0	+425	+35	Medium-low
37	Carbon Price Support Rate: cap at £18/tCO_2 in April 2019 and uprate in April 2020	Tax	0	0	0	0	+25	Medium-low
38	Corporation Tax: update technologies with access to enhanced capital allowances	Tax	*	+5	+5	+5	+5	Low
Avoidance, Evasion, Imbalances, and Operational Measures								
39	Disguised remuneration: tackling historic and new schemes	Tax	+100	+335	+645	+1,235	+215	Very high
40	Off-payroll working: transfer liability to public sector employers	Tax	0	+265	+65	+105	+120	High
41	Loans to participators: align rates with dividend higher rate	Tax	+15	+80	+80	+70	+65	Medium
42	Removing employer tax advantage of different forms of remuneration: pay-offs over £30,000	Tax	0	+45	+420	+470	+485	Medium-high
43	Offshore Property Developers: tackle avoidance and evasion	Tax	+130	+435	+550	+640	+520	Medium-high
44	Stamp Duty Land Tax on additional properties: exemptions	Tax	+45	+55	+60	+65	+70	High
45	Corporation Tax: removing the renewals allowance	Tax	+5	+5	+5	+5	+5	Low
46	Value Added Tax: tackling overseas trader evasion	Tax	0	+65	+130	+315	+365	High
47	Value Added Tax: extend reverse charge to electronic communications services	Tax	+115	+105	+90	+75	+60	Medium
48	Gambling Duties: reform treatment of freeplays	Tax	-20	+45	+90	+100	+110	Medium-low
49	Asset Managers: reform treatment of performance awards	Tax	+15	+210	+115	+90	+65	Medium-high
50	Border Force: Illicit Tobacco Strategy	Tax	-5	+20	+25	+30	+45	High
51	Landfill Tax: tackling waste crime	Tax	0	+5	+10	+20	+30	Medium-high
52	Tax Free Childcare and Employer Supported Childcare: updated roll-out and grandfathering	Tax	+20	-35	-155	-120	-85	Medium-high
53	DWP and HMRC operational and policy measures	Spend	-35	-50	+5	+45	+30	Medium-low

Duties								
54	Fuel Duty: freeze in April 2016	Tax	-440	-435	-445	-445	-450	Medium-low
55	Alcohol Duty: freeze for beer, spirits and cider	Tax	-85	-85	-85	-85	-85	Low
56	Heavy Goods Vehicles: freeze VED and Road User Levy	Tax	-5	-5	-5	-5	-5	Low
57	Hand-rolling Tobacco: increase by RPI+5%	Tax	+10	+10	+10	+10	+10	Low
58	Aggregates Levy: freeze rates	Tax	-5	-5	-5	-5	-5	Low
59	Package Recycling Target: reform	Tax	+5	+10	+5	0	-5	Medium-low
Local Growth								
60	Flood Defence and Resilience: additional investment	Spend	-80	-200	-205	-205	-	N/A
61	Insurance Premium Tax: increase by 0.5% in September 2016	Tax	+80	+200	+205	+205	+210	Medium-low
62	City Deals	Spend	-145	-60	-10	-10	-	N/A
63	Smart Motorways: M62	Spend	*	*	-75	-115	-	N/A
64	Office for National Statistics: Bean Review	Spend	-5	-10	0	0	-	N/A
65	Enterprise Zones: extend enhanced capital allowances	Tax	0	0	0	0	-5	Medium
66	Cathedral Repairs Fund	Spend	-5	-5	0	0	-	N/A
67	Additional Cultural Investment	Spend	-25	-30	-15	-15	-	N/A
68	Other local growth measures	Spend	-5	-5	-10	-5	-	N/A
Previously announced measures								
69	Local Government Assets: receipts flexibility	Spend	+100	+250	+380	+380	+190	Medium-high
70	Help to Save	Spend	0	0	0	-20	-70	High
71	Education: Mentoring for disadvantaged pupils	Spend	-5	-5	-5	-5	-	N/A
72	Right to Buy: pilots	Spend	0	-35	-35	-5	0	Medium-low
73	Personal Independence Payments: aids and appliances	Spend	+15	+590	+1,190	+1,300	+1,280	Medium-high
74	Pay to Stay: introduce taper and make voluntary for housing associations	Spend	0	+260	+205	+260	+305	Medium
75	Social Rent downrating: one year deferral for supported housing	Spend	-15	-20	-20	-25	-25	Low
76	Benefit Cap: exemption for recipients of carers and guardians allowance	Spend	-10	-20	-20	-20	-20	Medium-low
77	Local Housing Allowance: implement for new tenancies from April 2017	Spend	0	0	-60	-25	-15	Low
	TOTAL POLICY DECISIONS		**+285**	**-7,550**	**-4,770**	**+13,915**	**+4,175**	
	***Memo: TOTAL POLICY DECISIONS** (excluding the impact of CT payment date measure)* [4]		***+285***	***-1,550***	***-920***	***+7,950***	***+575***	
	Total tax policy decisions (excluding the impact of CT payment date measure)[4]		+645	-960	-470	+330	-2,760	
	Total spending policy decisions		-360	-590	-450	+7,620	+3,335	

**negligible*

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

[2] At Spending Review 2015, the government set departmental spendng plans for RDEL for years up to 2019-20. RDEL budgets have not been set for most departments for 2020-21. Given this, RDEL figures are not set out for 2020-21.

[3] This measure is fiscally neutral over the scorecard period. Figures may not sum to zero due to rounding.

[4] This measure changes the timing of corporation tax payments by larger groups. As it represents a cash-flow impact, its effect over the scorecard period is broadly neutral.

B.10 Table B.2 shows the detailed criteria and applies them to a sample policy measure from this Budget: 'help to save'. It is expected to cost around £70 million in 2020-21. This measure introduces a regular saver account into which the Government will match an individual's savings at a rate of 50 per cent on monthly balances. The maximum monthly contribution limit is £50 and it has a 2-year term until maturity. Users can then choose to save for a further two year term. This is available to low income earners receiving either working tax credits or equivalent universal credit benefits.

B.11 We consider the modelling for this measure to be a 'high' source of uncertainty as it uses multiple stages of assumptions about the expected number of eligible individuals and when users of the accounts will withdraw their savings.

B.12 The data used consists of two datasets. First, working tax credits administrative data are used, which are relatively certain. Second, the Family Resources Survey is used for the universal credit population. As this is a sample of the population, it is less certain. We consider the data to be a 'medium-high' source of uncertainty.

B.13 The behavioural response consists of two key assumptions to which the costing is highly sensitive. First, the proportion of eligible individuals that will choose to use these accounts. Second, the amount these individuals will save and for how long they will continue to do so. Both are based on information from previous schemes of a similar nature, but still require a large degree of judgement. These behaviours can also be volatile, as demonstrated by previous schemes. We therefore judge this to be a 'high' source of uncertainty.

B.14 Taking all these judgments into account, we gave the costing an overall rating of 'high'.

Table B.2: Example of assigning uncertainty rating criteria: 'help to save'

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

B.15 Using the approach set out in Table B.2, we have judged eight measures in the scorecard to have 'high' uncertainty around the central costing. Two were judged to have 'very high' uncertainty. Together, these scorecard measures represent 13.0 per cent of those in the Budget by number and 8.3 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 £3.7 billion in total over the forecast period. The measures are:

- **'lifetime ISA and raise ISA limit to £20,000'** – this measure receives a 'very high' uncertainty rating. The majority of the Exchequer impact of this measure can be attributed to the introduction of the lifetime individual savings account (ISA). This introduces a new type of ISA into which individuals can save up to £4,000 a year and receive a 25 per cent top-up from the Government. The lifetime ISA is not subject to tax when accessed but there will be a charge on early withdrawals. There is an option to withdraw the full amount for first-time homebuyers. The main source of uncertainty is the behavioural impact, because the cost of the top-up is extremely sensitive to it. In particular, assumptions are made about: the number of people choosing to use the lifetime ISA; how much they choose to save; and when they choose to withdraw. There is little information that can be used to inform these assumptions and the behaviour is dependent on a variety of other factors, which amplifies the uncertainty;

- **'financial advice markets review: increase tax relief on employer provided pension advice'** – this measure receives a 'high' uncertainty rating. This policy increases the value and amount in scope of tax-relieved employer provided pensions advice. The main uncertainty is within the behaviour. Estimating the behavioural impact on this costing requires a number of assumptions to be made, including: the number of new individuals taking up the scheme; the amount current users increase their usage of it; and the potential for rapid growth in the number of users in the initial years. These responses depend on a variety of factors outside the tax system and are difficult to predict. The lack of data on existing users' employer-provided pension advice also contributes to the uncertainty, leading to a 'high' rating overall;

- **'capital gains tax: lifetime limit under employee shareholder status'** – this measure receives a 'high' uncertainty rating. From Budget 2016, this introduces a lifetime limit on the capital gains an individual can make on shares acquired through employee shareholder status arrangements that are exempt from capital gains tax. The main source of uncertainty in this costing is from the absence of good quality data on the lifetime gains that may breach this limit. In particular, this costing is sensitive to the size of the upper end of the distribution – those with the highest lifetime gains. Due to the lack of data, assumptions are required to model the affected population. The costing is highly sensitive to changes in these assumptions;

- **'disguised remuneration: tackling historic and new schemes'** – this measure receives a 'very high' uncertainty rating. Each component of it is highly uncertain. The measure tackles the use of tax avoidance schemes – often through the use of employee benefit trusts – that affect income tax and national insurance contributions. There is very limited data from which to estimate the size of the tax base, so some unverifiable assumptions are needed to derive it. The behavioural response is arguably even more uncertain, as the measure is targeted at quite aggressive tax avoiders, who can be expected to seek alternative avoidance options. There is also uncertainty over the modelling, which has multiple stages;

- **'stamp duty land tax on additional properties: exemptions'** – this measure receives a 'high' uncertainty rating. It makes a number of changes to the Autumn Statement 2015 measure 'stamp duty land tax: higher rates on additional property', which also received a 'high' uncertainty rating. The original costing was based on a highly uncertain tax base and behavioural impact. This means identifying the taxpayers affected by the changes in exemptions cannot be done with any degree of certainty. The costing relies on a number of difficult to verify assumptions and judgements;

- **'value added tax: tackling overseas trader evasion'** – this measure receives a 'high' uncertainty rating. It tackles the unpaid VAT from purchases through online marketplaces sourced from outside the European Union. There are two particular uncertainties. Some elements of the costing have a very high behavioural response. Many of the suppliers that are caught are likely to be replaced by others, while some will restructure their operations through alternative countries or set up as new companies. As with all measures targeting uncollected tax, there is significant data uncertainty. The tax base cannot be precisely estimated and is derived from import data using assumptions and judgement;

- **'off-payroll working: transfer liability to public sector employers'** – this measure receives a 'high' uncertainty rating. The measure targets workers in the public sector engaged through an intermediary, usually a personal service company, which enables them to pay less tax and national insurance contributions. The main source of uncertainty is behaviour, but there is also a lack of good data and some complex modelling. There are a variety of potential behavioural responses, which depend on a number of factors. These are estimated using assumptions and judgement. The uncertainty around data makes it difficult to identify the affected population;

- **'border force: illicit tobacco strategy'** – this measure receives a 'high' uncertainty rating. It provides the Home Office with additional resources. The yield depends on how effective the additional resource will be at stopping illicit tobacco entering the UK. The most uncertain part of the costing is the behavioural element. This includes both a displacement effect, as criminals learn how to circumvent the new strategy, and the response of individuals who will now be forced to buy higher priced duty paid goods. Combined, these effects significantly reduce the estimated yield of the measure;

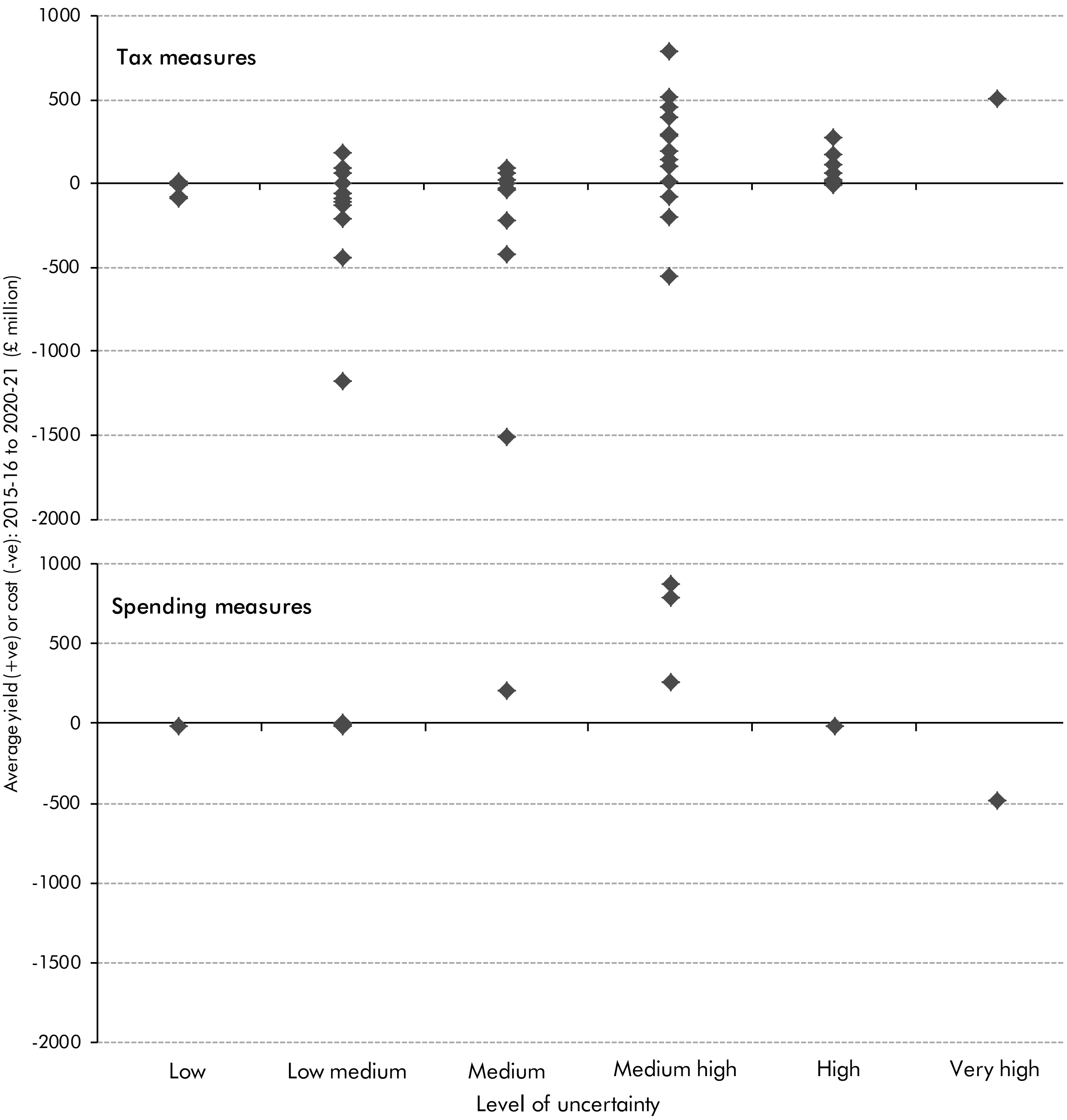
- **'corporation tax: reform loss relief'** – this measure receives a 'high' uncertainty rating. The measure restricts the amount of brought forward losses a business is able to offset against taxable profits, but it also widens the use of losses from different types of income streams for the same purpose. The yield from this measure is based on uncertain assumptions around the profitability of companies over the scorecard period. In particular, we consider the modelling to be both complex and important for the costing. If companies make higher or lower than expected gross profits over the next few years then the yield from this measure could be considerably higher or lower;

- '**help to save'** – this measure receives a 'high' uncertainty rating. The measure and the sources of uncertainty around it are described from paragraph B.10.

B.16 We have judged 43 scorecard measures to have between 'medium-low' and 'medium-high' uncertainty around the central costing, with a further 9 having 'low' uncertainty. That means that 55.8 per cent of the Budget scorecard measures have been placed in the medium range (79.7 per cent by absolute value) and 11.7 per cent have been rated as low (just 1.2 per cent by absolute value).

B.17 Chart B.1 plots these uncertainty ratings relative to the amount each policy measure is expected to raise or cost. One feature of the distribution of measures by uncertainty is that the spending measures are typically assigned lower uncertainty ratings, while the tax raising measures typically have higher uncertainty ratings than the tax cuts. This is particularly true for the measures that aim to raise money from companies and from high income and wealth individuals that are already actively planning their affairs to reduce their tax liabilities. This pattern has been apparent in most recent Budgets and Autumn Statements.

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



Longer-term uncertainties

B.18 For most policy costings, the five-year scorecard period 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 scorecard period – or it would be reasonable to expect the impact at the end of the forecast to rise broadly in line with nominal growth in the economy thereafter. In this Budget, the final year effects of most scorecard measures are representative of the longer-term cost or yield.

B.19 However, there are six measures where the scorecard costing is not representative of the longer term and where the long-term effects are particularly uncertain. These are:

- '**corporation tax: defer bringing forward payment for large groups for two years**' – this measure changes the start date of a measure announced in the July 2015 Budget. It alters the timing of when large companies pay quarterly corporation tax (CT) instalments. As it has no effect on CT liability, the long-term yield would in effect be zero. Moreover, if CT receipts were recorded in the public finances data in accruals terms – aligned with the timing of the economic activity that gave rise to the liability – rather than cash terms (when the tax is paid) our baseline forecast would change and the yield from this measure within the forecast period would also in effect be zero;

- **'capital gains tax: lifetime limit under employee shareholder status'** – this introduces a lifetime limit on the gains that individuals entering employee shareholder status arrangements can accumulate before being liable to pay CGT. It is expected to raise £35 million in 2020-21. Beyond the scorecard period, the yield is expected to continue rising as gains are realised over time. By the end of the 2020s this could rise to around £200 million a year;

- **'oil and gas: abolish petroleum revenue tax and reduce supplementary charge to 10%'** – this measure reduces the rate of petroleum revenue tax (PRT) from 35 per cent to 0 per cent and the corporation tax supplementary charge from 20 per cent to 10 per cent. Within the scorecard period the cuts in tax rates reduce receipts by an average of £200 million a year. In the longer term, we would expect there to be a yield from the PRT measure when the field is decommissioned since losses are carried back against PRT paid on previous profits. With less PRT paid because of the rate cut, there will be less PRT to be claimed back once fields are decommissioned. Indicative modelling suggests a yield peaking at less than £½ billion in the early 2030s;

- **'corporation tax: reform loss relief'** – this measure restricts the amount of brought forward losses a business can offset against taxable profits, but it also widens the use of losses from different types of income streams for the same purpose. The first element raises yield in the short term by raising taxable profit, but since no losses will actually be disallowed against future use, the long-term yield will erode over time. The second element reduces firms' tax liability, so while the measure raises yield during the scorecard period, by the late 2020s it is expected to generate a cost to the Exchequer;

- **'corporation tax: further restrict use of banks' pre-2015 losses'** – this measure alters the existing bank-specific loss-relief restriction so that the proportion of profits in a year against which losses brought forward by banking companies can be set is reduced from 50 to 25 per cent. This raises around £400 million a year during the scorecard period since banks will be able to use less of their accumulated stock of losses. However, this policy does not disallow losses, so these can still be set against future profit beyond the scorecard period. This policy should be broadly revenue neutral on a company-by-company basis in the long run;

- **'help to save'** – this measure introduces a regular saver account with a government top-up of 50 per cent on monthly balances, a maximum monthly contribution limit of £50, and a 2-year term until maturity. Second term accounts begin to mature beyond the scorecard period, so the cost peaks at around £100 million in 2022-23 when the first group of second term accounts begin to mature. A steady state cost of around £80 million is expected from 2023-24.

Small measures

B.20 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;
- 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.21 A good example of a small measure announced in this Budget is the 'aggregates levy: freeze rates'. The aggregates levy is usually increased in line with the retail prices index (RPI). This measure freezes the aggregates levy rate in 2016-17. The yield of this costing is around £5 million a year, and the data used to estimate the tax base are of high quality. The modelling is straightforward as it is a simple change in the levy rates in 2016-17 only. The behavioural effect is negligible as demand for aggregates will not change by a significant amount in response to such a small levy change. It is not considered to be a contentious measure.

B.22 By definition, any costings that meet all these conditions will have a maximum uncertainty rating of 'medium'.

Update on previous measures

B.23 We cannot review and re-cost all previous measures at each fiscal event (the volume of them being simply too great), but we do look at any where we are informed that the original (or revised) costings are under- or over-performing, and at costings that we have previously identified as subject to particular uncertainty. For this forecast we have considered:

- '**tax repatriation from Jersey, Guernsey, and Isle of Man**' – this Budget 2013 measure announced a disclosure facility with the crown dependencies and was originally costed to raise £1,050 million from 2013-14 to 2017-18. This was made up of two main elements: the voluntary disclosure of unpaid past tax liability (which would run from 2013-14 to 2016-17) and an information exchange agreement whereby from 2016 onwards HMRC would receive annual information on UK resident account holders that would generate future compliance yield. We lowered our forecast of the total yield to £800 million in November, but also changed the profile having considered evidence from HMRC on the extent to which any initial yield lost through lower disclosures would be recouped through additional compliance activity in later years. The disclosure facility closed on 31 December 2015 and HMRC has informed us that there were far fewer disclosures than expected. They believe this is due to a number of factors, including HMRC campaigns being less effective and with less coverage than expected and a perceived lack of awareness from those targeted. HMRC is also now less optimistic about how much of the lost yield can be recouped through additional compliance activity, on the basis that they are unlikely to be able to work the higher number of additional cases on top of existing workloads. Taking both factors into account, we have lowered the costing for this measure by a further £530 million;

- **'income tax: transferable marriage allowance'** – take-up for this Autumn Statement 2013 measure has been much lower than initially assumed. We have incorporated a take-up rate of 12 per cent for 2015-16 compared with over 70 per cent in the original costing. We assume that take-up eventually rises to around 50 per cent by the end of the forecast period. Lower take-up is likely to reflect issues with HMRC's IT systems, a lack of awareness of the allowance (e.g. reflecting limited initial advertising) and possibly a reluctance by those eligible to engage with HMRC. The lower take-up rate has boosted receipts by £400 million in 2015-16. The improvement in receipts is smaller in future years, because taxpayers will be able to claim for previous years as take-up increases;

- '**voluntary national insurance contributions**' – the yield from this Budget 2014 measure has been much lower than expected. This measure enabled pensioners to acquire additional state pension in exchange for a lump sum national insurance payment at an actuarially fair price. Take-up has been much lower than expected, although the average amount contributed has been higher. We now expect receipts of around £65 million in both 2015-16 and 2016-17, compared with original estimates of £435 million in both years;

- **pensions flexibility** – receipts from pension withdrawals relating to this Budget 2014 measure are expected to be around £900 million for the whole of 2015-16, around £200 million higher than assumed in the original costing;

- **HMRC digital** – HMRC has announced a number of measures in this area. The Autumn Statement 2013 measure 'HMRC: extending online services' had two elements: putting inheritance tax (IHT) online for customers and agents and a new system allowing charities to register jointly with HMRC and the Charity Commission. The IHT element was originally expected to go live in October 2015, with full coverage from March 2016. We have been told that it will not be fully operational until March 2017. The charities element was due to be implemented from 2015-16, but this has been delayed to April 2017. The Autumn Statement 2014 measure announcing the capital gains tax digital calculator – part of the 'HMRC: operational measures' package – was scheduled for an August 2015 implementation date. HMRC has informed us that this is currently on track. The Autumn Statement 2015 measure 'making tax digital' also remains on track;

- **HMRC compliance** – the large July 2015 Budget package also remains largely on track, although it is too early to assess the effectiveness of the individual measures;

- **tax free childcare** – this was announced as 'additional funding for childcare' at Budget 2014 with a September 2015 start date. It was delayed by 18 months following a legal challenge to the Government's decision to deliver the scheme through National Savings and Investments. A further change to rollout has been announced at this Budget. This keeps the February 2017 start date, but rolls the policy out more gradually between February and September 2017;

- **'error and fraud: additional capacity'** – this measure sought to bring in private sector support for HMRC tax credits compliance activity. It was part of the Autumn Statement 2013 measure 'tax credits: improving collection and administration'. Overall savings from the measure are now around £400 million compared to the original costing of £1.1 billion. This is the same as we estimated in November, reflecting two offsetting factors. Monitoring information shows that actual performance in 2015-16 has been lower than expected, but this is offset by the November reversal in July's tax credits cuts, which increased the tax credits spending forecast and therefore the amount of error and fraud that will be within scope of the measure;

- **Royal Bank of Scotland** – the Government announced that it would raise £5.8 billion in 2020-21 from the sale of RBS shares. The sharp fall in the RBS share price since then means we now expect no sale proceeds in 2020-21;

- **'diverted profits tax'** – this Autumn Statement 2014 measure targeted multinationals that used contrived tax arrangements and was expected to raise around £300 million a year from 2016-17 onwards. Our forecast assumes that yield from the measure will be close to that scored when the measure was announced. However, we now expect that around two-thirds of the yield will come through higher CT payments (as firms restructure their tax affairs) rather than via the diverted profits tax itself. Yield from multinationals using such tax arrangements is highly uncertain, so we will need to look again at the yield and the split between CT and diverted profits tax in each forecast;

- partnerships – the Budget 2013 and Autumn Statement 2013 anti-avoidance measures on partnerships were due to yield £1 billion in 2015-16. Preliminary data from January income tax self-assessment returns suggest partnership income did not grow as strongly as expected. We will return to this in our next forecast.

Departmental spending

B.24 We do not scrutinise costings of policies that reallocate spending within departmental expenditure limits (DELs) or the DEL implications of measures that affect receipts or AME spending. Instead, we include the overall DEL envelopes for current and capital spending in our forecasts, plus judgements on the extent to which we expect them to be over- or underspent in aggregate. DEL totals were set in November's Spending Review, and have been adjusted in this Budget. We have assumed underspending relative to those totals across the forecast.

B.25 We also discussed with the Treasury the process by which it would cut departmental spending in 2019-20 relative to the firm plans that were set in November's Spending Review, given the role that those cuts would play in the Government achieving its desired budget surplus in that year.

B.26 In the July Budget and November Autumn Statement, we asked the Treasury to provide assurance on the funding of a number of HMRC and DWP operational measures. For this forecast, we checked again that these had been fully funded.

B.27 For this Budget, we have sought assurance from the Treasury on the funding of a number of measures. It has confirmed that the measures below have been funded on the scorecard up to and including 2018-19 (2019-20 for 'border force: illicit tobacco strategy'). It has also confirmed that from 2019-20 onwards, funding for these measures will be prioritised in the next Spending Review. The measures are:

- 'value added tax: tackling overseas trader evasion': £24 million to HMRC to recruit staff in 2017-18 to support the collection of unpaid VAT from online purchases;

- 'disguised remuneration: tackling historic and new schemes': £19 million to HMRC to recruit staff across 2018-19 to 2020-21 to support legislation tackling disguised remuneration tax avoidance schemes;

- 'offshore property developers: tackle avoidance and evasion': £7 million to HMRC to recruit staff in 2016-17 for operational activity against property-related tax avoidance and evasion using offshore structures;

- **'DWP and HMRC operational and policy measures'**: £22 million to DWP to recruit presenting officers across 2016-17 to 2017-18 to support the department in personal independent payments and employment and support allowance tribunals;

- **'border force: illicit tobacco strategy'**: £31 million to Border Force to recruit officers to improve the seizure of illicit tobacco at customs ports; and

- **'landfill tax: tackling waste crime'**: £2 million to HMRC to recruit operational staff from 2016-17 to work on landfill tax evasion.

Indirect effects on the economy

B.28 This Budget contains a number of policy changes that we have judged to be sufficiently large to justify adjustments to our central economic forecast. These include:

- **fiscal policy** – the Government has loosened fiscal policy in the short term, reflecting net tax reductions and increases in DELs, both current and capital. The Government has then increased the pace of fiscal tightening significantly in 2019-20, accounted for by net tax increases and lower spending on welfare, public services and capital investment. To reflect these changes in our economy forecast we have applied the same 'multipliers' we have used in previous forecasts. These are larger the shorter the period is between a policy being announced and implemented. They imply a 0.1 per cent point boost to real GDP growth in 2017-18 and 0.1 per cent point reductions in both 2018-19 and 2019-20. These effects are sufficient to push the economy slightly above its potential level in 2017 and 2018 and slightly below in 2019, with the output gap closing by the end of 2020. The Government adjusted its plans for capital investment in 2020-21 after we closed our economic forecast. At this horizon we would assume that the multiplier has tapered to zero, so incorporating this adjustment would have no effect on our forecast for real GDP, although it would have had a small effect on the composition of expenditure;

- '**corporation tax: reduce to 17% in April 2020**' and '**corporation tax: restrict relief for interest**' – these two measures are expected to affect the cost of capital faced by firms and therefore business investment. The first is expected to lower the cost of capital but the second – which restricts the amount of corporate interest payments that affected groups will be allowed to offset against corporation tax liability – will raise the cost of capital. We also adjusted our forecast to reflect one additional measure, but the Government informed us that it would not be going ahead after our final economy forecast had been closed. As a result, our business investment forecast is around 0.5 per cent higher in 2020-21 than would be consistent with the final policy package announced in the Budget;

- '**removing employer tax advantage of different forms of remuneration: pay-offs over £30,000**' – this will impose employer National Insurance Contributions on termination payments over £30,000. In the near term we expect the additional cost to employers to be reflected in lower wages and profit margins, with the majority of the cost passed through to wages by the end of the forecast period. This implies a reduction in total wages and salaries of 0.1 per cent by 2020-21;

- 'lifetime ISA and raise ISA limit to £20,000' – this introduces a new ISA product for the under-40s, described above. Holders of lifetime ISAs will be allowed to make 100 per cent withdrawals for first-time house purchases up to £450,000. This is more likely than not to lead to higher demand for the relatively fixed supply of housing in the UK, and so to higher prices. We have therefore added 0.3 per cent to the level of house prices by the end of the forecast, although the effect of this policy is highly uncertain;

- 'soft drinks industry levy' – on the basis of the Government's revenue target for this levy, this implies rates of 18 pence or 24 pence per litre unit charge according to sugar content, which we expect to be passed entirely onto the price paid by consumers. It is expected to add around a quarter of a percentage point to CPI and RPI inflation in 2018-19;

- other measures affecting inflation – we have also made small adjustments for several other policies. The effects of these measures are small and broadly offsetting, and taken together imply almost no change to our CPI forecast. Measures that are expected slightly to increase CPI inflation across the forecast period include 'hand-rolling tobacco: increase by RPI plus 5%' and 'insurance premium tax: increase by 0.5% in September 2016', 'value added tax: tackling overseas trader evasion' and 'value added tax: extend reverse charge to electronic communications services'. Other policies are expected to reduce CPI inflation slightly, including 'fuel duty: freeze in April 2016' and 'alcohol duty: freeze for beer, spirits and cider'. The 'business energy: abolish carbon reduction commitment and offsetting increase to climate change levy' measure is also expected to lower inflation: while the net effect of these energy policies is to increase costs for medium sized companies, they reduce costs for large companies that make up a higher proportion of turnover. We expect this fall in costs to be passed through to consumers; and

- measures affecting housing associations' finances. We expect these measures to affect housing associations' future housebuilding decisions, reducing total residential investment by 0.7 per cent by 2020-21.

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