HM Government

Autumn Budget 2017:
policy costings

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Introduction

This document sets out the assumptions and methodologies underlying costings for tax and annually managed expenditure (AME) policy decisions announced since Spring Budget 2017, 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. This publication is part of the government's wider commitment to increased transparency.

Chapter 2 presents detailed information on the key data and assumptions underpinning the costing of policies in the Autumn Budget 2017. 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.

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.

Chapter 2

Policy costings

The following are included in this chapter:

- Local Authority housebuilding: additional investment
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- Social rented sector: maintain current rent policy without Local Housing Allowance cap

Local Authority Housebuilding: additional investment

Measure description

The government will lift Housing Revenue Account (HRA) borrowing caps for local authorities in areas of high affordability pressure. Local authorities will be able to bid for increases in their caps to build new Council homes from 2019-20, up to a total of £1 billion by the end of 2021-22.

The tax base

The cost base consists of the OBR forecast for Housing Revenue Account income and expenditure.

Costing

The costing is calculated by estimating the additional local authority capital expenditure financed by the new borrowing. There are also some small impacts on rental income and local authority spending as a result of the additional units built with the borrowing

The costing assumes that 80 per cent of the borrowing headroom will be taken up by local authorities, although up to £1 billion will be available.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	-355	-265	-260	0

Areas of uncertainty

The main uncertainties in this costing relate to local authorities' behavioural response to the measure.

Stamp Duty Land Tax: abolish for First Time Buyers up to £300,000

Measure description

This measure provides a full relief from stamp duty land tax (SDLT) for all residential property transactions by first time buyers of a transaction value equal to, or lower than, £300,000. Transactions above £300,000, and up to £500,000, benefit from this relief of £5,000, paying the normal marginal rates of 5% on the portion between £300,000 and £500,000. Transactions above £500,000 do not benefit from the relief.

The measure will be effective from 22 November 2017.

The tax base

The tax base is all residential property transactions in England, Northern Ireland and Wales purchased by first time buyers. SDLT is being devolved to Wales in April 2018 and so the tax base does not include Welsh residential first time buyer transactions from 2018-19 onwards. The tax base is based on data from the Council of Mortgage Lenders.

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 the volume of affected transactions is increased due to a change in prices.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	-125	-560	-585	-610	-640	-670

Areas of uncertainty

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

Council Tax: increase maximum empty home premium to 100%

Measure description

The government will give local authorities the power to increase the council tax empty homes premium from 50% to 100%. Increasing the premium allows authorities to encourage better use of the existing housing stock in their area to increase the supply of housing in England.

The tax base

The tax base consists of dwellings in England that are currently paying the 50% Council Tax premium in 2016-17.

Costing

The revenue generated in 2016-17 by the Department for Communities and Local Authorities forecast for council tax receipts is grown in line with OBR determinants at the new 100% rate.

10% of the revenue raised in-year is assumed to be added to reserves rather than spent in-year.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	0	0	+5	+5

Areas of uncertainty

The main uncertainty in this costing relates to the take-up of the empty homes premium.

Fuel Duties: freeze for 2018-19

Measure description

This measure freezes the main rate of fuel duty at 57.95 pence per litre for 2018-19.

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 HMRC 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)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-830	-825	-845	-865	-885

Areas of uncertainty

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

Alcohol Duties: freeze in 2018

Measure description

This measures freezes all alcohol duties from February 2018 to February 2019.

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 Autumn Budget 2017 alcohol duty receipts forecast.

Costing

The costing is estimated by comparing the revenue from a baseline RPI increase and the 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, including cross-price elasticities between alcohol types. The elasticities used are published in HMRC Working Paper 16 ‘Estimation of price elasticities of demand for alcohol in the UK’.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	-35	-225	-230	-230	-235	-240

Areas of uncertainty

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

Air Passenger Duties: freeze long haul economy flights and increase business class multiplier in 2019-20

Measure description

This measure freezes the reduced Band B Air Passenger Duty rate at £78 for 2019-20. It also increases the ratio between the reduced and the standard rate from 1:2 to 1:2.2 and increases the ratio between the reduced rate and the premium rate from 1:6 to 1:6.6. The ratio of rates for short-haul classes remains the same as at present.

This measure will be effective from 1 April 2019.

The tax base

The tax base is the number of Band B air passengers originating from UK airports and this is projected forward using the HMRC Air Passenger Duty revenue forecasting model.

Costing

The costing is calculated by taking the HMRC forecast baseline and applying the difference in the forecast and policy duty rates. Behavioural responses are included to consider the change in the number of passengers in response to changing airfares.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	+25	+25	+25	+30

Areas of uncertainty

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

Targeted Affordability Fund: increase

Measure description

To support more low income households in the private rented sector who live in areas where rents have been rising fastest, the government will increase Targeted Affordability Funding to 50% of the scored savings from the Local Housing Allowance freeze.

The measure will be effective from April 2018.

The cost base

The cost base is calculated using the savings from the Local Housing Allowance freeze, which have been previously agreed with the OBR.

Costing

The costing is calculated by increasing the proportion of the projected Local Housing Allowance freeze savings made at Budget 2016 that is recycled onto Targeted Affordability Funding from 30% to 50%.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-40	-85	-95	-100	-110

Areas of uncertainty

There are no significant areas of uncertainty. There is also unlikely to be a significant behavioural impact which could affect the final cost.

Universal Credit: remove 7 day wait and extend advances to 100%

Measure description

This measure increases the value of the UC advance to 100% of households and removes the 7 day waiting period for new Universal Credit claims'. The policy also extends the repayment period for advances to 12 months

This measure will be effective from January 2018.

The cost base

The cost base is estimated using the Department of Work and Pensions' Integrated Benefit Forecasting Model (INFORM) and Policy Simulation Model (PSM).

Costing

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

This costing models the impact of taking up the full advance available and repaid over the maximum repayment period, then adjusts in line with current estimated behaviours.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	-20	-170	-205	-195	-160	-145

Areas of uncertainty

The main uncertainty in this costing relates to the uptake of Universal Credit.

Universal Credit: run on payment for housing benefit recipients

Measure description

This measure provides additional support to those moving from Housing Benefit to Universal Credit by paying claimants an additional two weeks of their Housing Benefit award.

This measure will be effective from April 2018.

The cost base

The cost base is estimated using the Department for Work and Pensions' Housing Benefit forecast, forecasts of migrations from Housing Benefit to Universal Credit, the Integrated Benefit Forecasting Model (INFORM), and the Policy Simulation Model (PSM).

Costing

The costing is estimated by calculating the difference between the pre- and post-measure Universal Credit marginal expenditure and Housing Benefit expenditure.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-130	-125	-135	-110	-40

Areas of uncertainty

The main uncertainty in this costing relates to the uptake of Universal Credit.

Research and Development: increase R&D expenditure credit to 12%

Measure description

This measure increases the rate of the Research and Development (R&D) Expenditure Credit from 11% to 12%.

This measure will be effective from 1 January 2018.

The tax base

The tax base is the amount of R&D expenditure used to claim research and development expenditure credit. This was estimated using published national statistics on RDEC qualifying expenditure for accounting periods ending in 2015-16, projected forward using the OBR Autumn Budget 2017 business investment forecast.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. A behavioural adjustment is made for the increase in business R&D expenditure that is expected to be incentivised by the RDEC rate increase.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	-5	-60	-170	-175	-170	-175

Areas of uncertainty

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

Oil and Gas: transferrable tax history

Measure description

This measure will provide companies buying North Sea oil and gas fields with certainty that they will get tax relief for the decommissioning of the asset, as upon purchasing the asset they can acquire some of the previous owner's tax history (i.e. historic profits on which ring-fenced corporation tax and supplementary charge have been paid). The availability of decommissioning tax relief is normally dependent on tax having been paid on profits from oil related activities.

The measure will be applicable to deals completed after 1 November 2018.

The cost 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 using survey information provided by operating companies and OBR Autumn Budget 2017 forecasts for key determinants such as 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.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+5	+20	+10	+10	+25

Areas of uncertainty

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

Patient Capital Review: reforms to tax reliefs to support productive investment

Reforms to the Venture Capital Schemes

Measure description

Effective from April 2018 a number of new rules will be introduced for the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs):

- Knowledge Intensive Companies will be allowed to raise a maximum £10 million per year, up from £5 million
- Investors in EIS will be allowed to invest up to £2 million per year, up from £1 million, provided that anything above £1 million is invested in a Knowledge Intensive Company
- the age rule for eligible Knowledge Intensive Companies will be amended to allow investment up to 10 years through EIS and 7 years through VCTs from the end of the accounting period in which turnover exceeds £200,000
- HMRC will implement a Capital Preservation purpose test, aiming to exclude investments undertaken for capital preservation

The tax base

The tax base consists of the value of investment raised through the EIS and VCTs. This value is estimated from HMRC operational data on companies that are raising investment through the EIS VCTs and is grown over the forecast period in line with OBR Autumn Budget 2017 forecasts of equity price growth.

Costing

The post-measure tax base is calculating by estimating the amount of EIS and VCT investment that will be impacted by the changes. The costing accounts for behavioural responses to the changes, whereby a proportion of capital preservation investment excluded is reinvested elsewhere through these schemes, and the new incentives to invest in knowledge intensive companies result in increased investment in those.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	+45	+45	-5	-10

Areas of uncertainty

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

Patient Capital Review: reforms to tax reliefs to support productive investment

Entrepreneurs' Relief: anti-dilution provision

Measure description

Currently, taxpayers who otherwise meet all the criteria for ER but whose shareholding has been diluted below 5% before disposal may not claim ER.

This measure relaxes the qualifying criteria, permitting these taxpayers to claim ER on the part of their gain that arose before their shareholding was diluted below 5%, even if they dispose of their shares some time after their shareholding was diluted.

This measure will be effective from April 2019.

The tax base

The tax base is gains from shares currently disposed at lower and higher rates of Capital Gains Tax, where the shareholding previously met the criteria for ER but has since fallen below the 5% threshold.

Costing

The static costing is calculated by comparing the difference between the ER rate of 10% and the lower or higher rates of CGT for that part of the gain that relates to the period before dilution.

This costing also accounts for two behavioural responses:

1. The lower ER rate provides an incentive for taxpayers who newly qualify for ER to dispose of their assets sooner; and, conversely:
2. Taxpayers who currently dispose of their assets in anticipation of dilution in order to qualify for ER no longer need to do so, and may hold their assets for longer.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	0	-10	-10	-10

Areas of uncertainty

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

Business Rates: bring forward CPI uprating to 2018-19

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. Budget 2016 committed to switching to the government's main measure of inflation, currently the Consumer Price Index (CPI) from April 2020.

This measure brings forward this switch to April 2018.

The tax base

Department for communities and local authorities produce regular business rates forecasts for the OBR. To determine the total income from business rates for future years officials use the most recent OBR forecast.

The primary data source is the OBR Autumn Budget 2017 forecast for future business rates receipts.

Costing

The RPI forecast on which business rates forecasts are based in 2018-19 and 2019-20 is replaced with the CPI forecast. The costs will grow in the first two years of implementation as the multiplier each year is dependent on the previous year's multiplier, thereafter the costs will stay flat as the baseline is already uprated by CPI.

Two further adjustments were made to the static cost:

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

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-240	-530	-525	-520	-520

Areas of uncertainty

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

Business Rates: extend pubs discount to 2018-19

Measure description

This measure will provide public houses in England with a rateable value below £100,000 with a discount of £1,000 off their business rates bill in 2018-19.

This will continue the discount which was introduced in April 2017.

The cost base

The tax base is constructed using the Valuation Office Agency 2017 rating list as at Spring Budget 2017.

Costing

The static costs were determined by the number of public houses qualifying for the discount.

Two further adjustments were made to the static cost:

- business tax adjustments: business rates are deductible for Corporation Tax for companies and Income Tax for the self-employed
- Barnett consequential: business rates are devolved to Scotland, Wales, and Northern Ireland

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-30	0	0	0	0

Areas of uncertainty

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

Competition and Markets Authority: additional enforcement

Measure description

These measures will increase the Competition and Market Authority's RDEL budget by £2.8m to support more competition law enforcement, and increase the proportion of litigation costs they can offset against fine income from enforcement from 50% to 100%.

This measure will be effective from April 2018.

The cost base

The cost base for these policies is the CMA's forecast enforcement costs, historic litigation spend, historic caseload, and historic fine income.

Costing

The costing is based on an estimate of the number of additional cases to which the measures could give rise, multiplied by an estimate of the fine income that could be generated by these additional cases. This fine income is assumed to be lower than the historic average for a number of reasons, including an assumption that the CMA are already pursuing those cases with the highest fines, so fine income from additional cases is assumed to be lower.

The costing includes a behavioural response whereby the extra cases conducted create a deterrent effect that drives more compliance with competition law.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-5	-5	+5	+15	+10

Areas of uncertainty

The main uncertainties in this costing relate to the fine income collected from the additional cases and the size of the behavioural response.

Aggregates Levy: freeze in 2018-19

Measure description

This measure freezes the aggregates levy at £2 per tonne for 2018-19.

This measure takes effect from 1 April 2018.

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 Autumn Budget 2017 forecast for aggregates output. This forecast is dependent on the lagged duty rate, seasonal variation and a time trend.

Costing

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

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-15	-10	-10	-10	-10

Areas of uncertainty

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

HGV VED and Road User Levy: freeze in 2018-19

Measure description

This measure freezes Heavy Goods Vehicle (HGV) road user ley rates and VED rates for 2018-19 at 2017-18 levels.

This measure is effective from 1 April 2018.

The tax base

HGV Road Users Levy: The tax base consists of the levy payments made by all domestic and foreign HGVs that operate in the UK. The tax base grows over the forecast horizon using the Department for Transport's annual growth assumptions for UK HGV stock, the number of visiting foreign HGVs and OBR Autumn Budget 2017 forecast inflation.

HGV VED: The tax base is the stock of vehicles liable for HGV VED and is estimated using the latest stock position from the OBR certified VED forecasting and costing model

Costing

The static cost is calculated by multiplying the baseline stock forecast by the policy (frozen) rates and then subtracting the baseline revenue.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-15	-10	-15	-15	-15

Areas of uncertainty

The main uncertainties in this costing relate to the rate of UK HGV stock growth and foreign operators' Levy purchasing patterns.

Avoidance and Evasion: additional compliance resource

Additional compliance resource

Measure description

This measure provides additional staff for HMRC to tackle noncompliance by wealthy individuals, public bodies and midsized businesses. It includes staff for additional risking teams, and staff to handle disputes with taxpayers and to collect debts.

This measure will be effective from January 2019.

The tax base

The tax base for this measure is the revenue loss occurring as a result of non-compliance among the groups this measure covers. This is estimated using HMRC operational data, and reflected in the measuring tax gaps publication.

Costing

The costing is calculated by applying the pre- and post-measure average compliance yield rates to additional compliance staff this measure funds. The costing accounts for lags in recruitment and training. The costing also includes a behavioural assumption that individuals will become more compliant in the future if their tax affairs are reviewed by HMRC.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-10	-20	+35	+110	+190

Areas of uncertainty

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

Avoidance and Evasion: additional compliance resource

Hidden economy transformation

Measure description

This measure invests in the transformation of HMRC's operational approach to tackling the hidden economy.

Investment would allow for the nationwide expansion of innovative risk assessment technology to identify larger hidden economy tax risks clustered in geographic hotspots, enabling more efficient HMRC operational activity.

This measure also includes provision for additional HMRC staff including further analysts, caseworkers, and specialists to undertake prosecutions where appropriate.

The tax base

The tax base is estimated using results from an initial trial, and the latest performance data (2016-17) from existing hidden economy casework.

Costing

The costing is based in part on operational data, and emerging results from a trial. It estimates additional yield when the results from the trial are replicated in more locations via a staged roll-out facilitated by additional HMRC recruitment. It also takes into account potential uncertainty around trial results.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+5	+5	+35	+40	+40

Areas of uncertainty

The main uncertainty in this costing relates to the scalability of the results from the pilot to a national rollout.

Avoidance and Evasion: additional compliance resource

Tackling enablers and facilitators

Measure description

This measure provides additional staff for HMRC to address a broad range of risks across all customer groups, which are underpinned by a network of enablers and facilitators. This includes tackling the exploitation of commercial supply chains which are used to perpetrate fraud, utilising the corporate criminal offence which addresses the failure to prevent the facilitation of tax evasion by corporate bodies, and tackling those that assist with the removal and dissipation of assets derived from tax fraud.

This measure will be effective from October 2018.

The tax base

A different tax base is used for each risk addressed by this measure. They are all based on data from non-compliant activities which are similar or considered representative of the risks targeted by this measure.

Costing

The costing is calculated by applying estimates of average yields, and to scales of additional cases, based on previous performance data of activities similar or considered representative of, the additional activities undertaken as a result of this measure. The costing accounts for lags in recruitment and training. It also includes a behavioural assumption that previously compliant businesses inadvertently caught up in fraudulent supply chains will return to compliance, following HMRC intervention to address the supply chain fraud.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-15	0	+125	+210	+320

Areas of uncertainty

The main uncertainties in this costing relate to estimates of average yield from additional cases and the size of the behavioural response.

Avoidance and Evasion: additional compliance resource

Large business compliance resource

Measure description

This measure funds additional compliance staff within HMRC's Large Business Directorate to address significant emerging and known non-compliance risks. This will involve a compliance approach of one-to-one interventions, as well as applying new ways of working through campaigns and projects to stop noncompliance before it occurs.

This measure will be effective from April 2018.

The tax base

The tax base for this measure is the revenue loss occurring as a result of non-compliance by HMRC's largest business customers.

Costing

The costing is calculated by applying the pre- and post-measure average compliance yield rates to the tax base described above. This includes increased compliance continuing into future years following an intervention which results in yield to the Exchequer.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-5	+20	+70	+110	+140

Areas of uncertainty

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

Avoidance and Evasion: additional compliance resource

Aged debt taskforce

Measure description

This measure will deploy additional staff into a new temporary taskforce to tackle aged tax debt (over 9 months old) with a value of up to £20,000. Additional capacity will enable HMRC to undertake more collection activity on aged debts.

This taskforce will operate for a two-year period, effective from October 2018.

The tax base

The tax base is taken to be the current balance of debts aged 9 months and older in October 2017, projected forwards to estimate the stock of debt when the taskforce becomes operational in October 2018. Additionally, the debt that becomes aged during the life of the taskforce has also been considered and added to the tax base.

Costing

Revenue estimates have been calculated by considering the number of cases the taskforce would have the capacity to work and applying a collection rate to the debts from these cases.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+35	+65	+45	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the proposed collection rate of aged debts and the estimate of debt which will become aged following the introduction of the measure and during the life of the taskforce.

Avoidance and Evasion: additional compliance resource

Investment in countering marketed avoidance

Measure description

The additional resource provided by this measure will enable HMRC to tackle those who use insolvency to avoid their liability, exploit new risking tools to identify users of new avoidance schemes and new users of existing schemes.

The measure will be effective from April 2018.

The cost base

The tax base is estimated separately for each strand of activity, and consists of known avoidance usage from the stock of avoidance cases, known avoidance insolvency debt, and avoidance usage newly identified by operational teams and new risking tools.

Costing

The Exchequer impact is estimated by modelling the yield for each strand of activity pre- and post-measure. Adjustments are made for recruiting and deploying staff.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-10	+115	+240	+95	+35

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and the debt collection rates for insolvency cases.

Avoidance and Evasion: additional compliance resource

Debt market integrator – additional funding

Measure description

This measure provides extra funding for the Autumn Statement 2014 measure 'Debt Market Integrator' for 2018-19 and 2019-20. This will allow for the placement of extra debt with third party debt collection agencies for these years, in addition to that already funded.

The tax base

The tax base for this measure is the value of additional debt that is sent to the private sector debt collection service provider above that funded at Spending Review 2015.

Costing

The costing estimates the additional amount of debt that will be recovered as a result of increasing the funding for this measure.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	-10	+10	+20	+20	0	0

Areas of uncertainty

The main uncertainty is the size of the taxbase.

Avoidance and Evasion: additional compliance resource

Employment allowance

Measure description

This measure will target employers who have a history of misusing the Employment Allowance (EA) to avoid paying the correct amount of National Insurance contributions (NICs). Some employers create many small, artificial companies and use these to claim more than the one EA they are eligible for to reduce their employer NICs payments.

This measure will leverage existing legislation to require a bond of £3,000 from the employer each time they set up a new company. If the employer makes an invalid EA claim in future, HMRC will keep the security, protecting revenue. This bond will be repaid if the employer's EA claim is found to be legitimate.

The government will invest in additional staff to administer the new bonds.

After initial training and testing in 2018, a full roll out will start from April 2019.

The tax base

The tax base is the number of employers with a history of EA avoidance.

Costing

This costing assumes that HMRC will require bonds a year from 2019 and calculates the subsequent yield from these bonds.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	neg	+15	+15	+15	+15

Areas of uncertainty

The main uncertainty in this costing relates to the number of schemes that will be able to avoid being identified and continue to engage in this avoidance.

Corporation Tax: tackle related party step up schemes

Measure description

This measure counters intangible asset 'step-up' avoidance schemes by ensuring all related party licencing arrangements, and all non-cash disposals, are taxed fairly and consistently, and in-line with cash transactions.

It does this by:

- amending the market value rules of licences for intangible assets granted by or to a company, where the other party to the licence is a related party
- clarifying the tax treatment where the disposal of the company intangible assets involves non-cash consideration, such as shares. This clarification applies to all intangible assets transactions, not just licence arrangements

The measure will be effective from 22 November 2017.

The tax base

The tax base is derived from HMRC operational data on groups identified as using these arrangements. This is projected over the forecast period in line with OBR Autumn Budget 2017 profits growth forecast.

Costing

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

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	+15	+45	+45	+45	+45	+45

Areas of uncertainty

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

Corporation Tax: depreciatory transactions

Measure description

A depreciatory transaction is one that takes value out of shares in a company, for example by transferring the assets of that company to another company within a group, for no or little cost.

This measure removes the time limit of six years for which a company must look back and adjust the capital loss claimed on the sale of shares in a group company to account for earlier depreciatory transactions. It will ensure companies cannot prevent the depreciatory transaction rules applying by simply holding onto the shares for six years or more.

This measure will be effective from 22 November 2017.

The tax base

The tax base is the amount of losses derived from depreciatory transactions outside of the 6 year window and is estimated using HMRC operational data. It is projected over the forecast period using OBR Autumn Budget 2017 projections.

Costing

The exchequer impact is estimated by applying the Corporation Tax rate to the tax base. The costing reflects a behavioural response where there might be an increase in tax planning activity by affected groups.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	+5	+10	+10	+10	+10	+10

Areas of uncertainty

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

Royalty Payments made to low tax jurisdictions: withholding tax

Measure description

This measure expands the scope of the existing royalty withholding tax rules to cover royalties, and other similar payments, that are connected with sales to UK customers, regardless of the existence of a permanent establishment in the UK.

This measure will be effective from 1 April 2019.

The tax base

The tax base is estimated using HMRC operational intelligence, and consists of royalty payments made by non-UK resident multinational corporations that are not currently subject to withholding tax. Payments expected not to be in scope, e.g. due to double taxation agreements, are removed.

The tax base is projected over the forecast period with OBR Autumn Budget 2017 determinants.

Costing

The costing is estimated by applying the withholding tax rate of 20% to the tax base described above. The costing allows for the possibility that affected corporations may seek to implement a number of behavioural responses in order to mitigate the impact of the changes. An adjustment was also made for interactions with the royalties withholding tax measure announced at Budget 2016.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	+285	+225	+160	+130

Areas of uncertainty

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

Online VAT fraud: extend powers to combat

Measure description

This measure builds on the package of measures announced at Budget 2016 to combat online VAT fraud.

The measure will mean HMRC will hold online marketplaces jointly and severally liable for any future unpaid VAT of a UK business arising from sales of goods in the UK via that online marketplace. HMRC will also extend new rules to online market place for non-UK seller relating to instances where marketplace knew or should have known that the non-UK business should be registered for VAT in the UK. The policy will require online sellers to display their VAT number on the online market place.

The measures will be effective from April 2018.

The tax base

The tax base is estimated by determining the size of the online marketplace sector using ONS retail statistics, market research and data received by HMRC from the online platforms.

Costing

The yield is calculated by applying an assumption about the level of VAT non-compliance, based on operational intelligence and analysis of available HMRC data. The costing accounts for the potential coverage of the measure and a behavioural response, whereby some online sellers may find ways to mitigate its impact.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+10	+20	+40	+50	+45

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base for UK-based sellers and sellers based overseas, and the size of the behavioural response.

Offshore Time Limits: extend to prevent non-compliance

Measure description

This measure will extend the time limits for HMRC to assess tax in non-compliance cases where offshore income, assets and structures are involved. In cases where legislation allows HMRC to assess back 4 or 6 years currently, this measure extends the time limit to 12 years. Where there is deliberate behaviour, the current offshore time limit of 20 years will remain.

The government plans to implement the new time limits in 2019. The measure will impact from 2021 and builds on changes brought about by the Requirement to Correct from April 2018.

The tax base

The tax base comprises of an estimate for compliance yield from 2021-22 onwards. This relates only to yield from cases where there is not deliberate behaviour, as deliberate behaviour cases will still be assessable to the current 20 year time limit, and where there would be additional yield if HMRC could assess tax further back than the current time limits of 4 or 6 years.

In addition, it includes the estimated yield from individuals who will make disclosures in the Worldwide Disclosure Facility in 2018-19.

Costing

The Exchequer impact is estimated by applying an uplift to the yield from cases where HMRC will now be able to assess back 12 years.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	neg	neg	neg	+5	+10

Areas of uncertainty

The main uncertainties in this costing relate to the percentage of extra yield that will be obtained by being able to go back over 20 years and the number of relevant cases.

Carried Interest: prevent avoidance of Capital Gains Tax

Measure description

Carried interest is a performance-based award made to investment managers to reward them for growth in the value of the assets under their management. Since Summer Budget 2015, carried interest has been subject to higher rate Capital Gains Tax (CGT), 28%. The Summer Budget measure introduced a transitional rule that made allowances for carried interest that was due to be paid before the 8th July but had been delayed for administrative or commercial reasons.

This measure switches off the transitional rule and apples to the carried interest amounts arising on or after 22 November 2017.

The tax base

The tax base comprises carried interest upon which investment fund managers pay effective CGT rates lower than the prevailing headline CGT rate. This is estimated using market data and HMRC operational intelligence. It is grown out over the forecast horizon using the OBR Autumn Budget 2017 determinants.

Costing

The Exchequer impact is calculated by applying the pre- and post-measure tax regimes to the tax base described above, and taking the difference. A behavioural response of those affected by the measure is included in the costing.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+20	+170	+165	+150	+145

Areas of uncertainty

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

Insolvency use to escape tax debt

Measure description

This measure expands the scope of the existing security deposits legislation to include Corporation Tax (CT) and Construction Industry Scheme (CIS) deductions. The security is given to HMRC to ensure that the taxpayer will meet their existing and future tax liabilities that are at risk of non-payment as a result of serious non-compliance, or deliberate insolvency.

The measure would be effective from April 2019.

The tax base

Securities will be used to target two separate groups: serious non-compliers and those who have previously used insolvency to avoid paying liabilities. The first tax base is the current HMRC debt balance from which we identify those businesses that demonstrate serious non-compliance. The second tax base is CT and CIS liabilities from businesses, written-off each year due to insolvency as given in the HMRC trust statement, of which a proportion will be due to deliberate defaulters.

Costing

The costing is based on assumptions around the value of securities HMRC will target from the tax base detailed above, the expected value of securities to be collected, and the future compliant behaviour of those targeted with a securities intervention.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-5	+70	+135	+150	+150

Areas of uncertainty

The main uncertainties in this costing relate to the securities powers for CT and CIS yielding at a similar rate to that of the existing securities powers that cover a different set of tax regimes and the size of the behavioural response.

Dynamic coding-out of debt

Measure description

This measure is to introduce a new approach to in-year coding–out from Pay As You Earn (PAYE) income for self-assessment debts in the year that they are identified as being eligible, rather than in future tax years as is currently the case.

The measure will be effective from April 2019.

The cost base

The tax base is estimated from analysis of HMRC management information.

Costing

The costing estimates the value of the extra debt that will be coded out as a result of the new in-year coding out system, and further benefits from an acceleration of debt collection.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	+55	+30	+20	+20

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and interactions with other measures.

Construction supply chain VAT fraud: introduce reverse charge

Measure description

This measure introduces a domestic reverse VAT charge. Which means all but the final business customer in a supply chain are liable to account for the VAT rather than the supplier. This is an anti-fraud measure which prevents construction industry fraud by removing the opportunity for fraudsters to charge VAT and then go missing before paying it over to the Exchequer.

The measure will be effective from October 2019.

The tax base

The tax base is the tax at risk from fraud in the construction industry.

Costing

The costing is based on the value of the labour fraud in the construction industry each year as the reverse charge will greatly reduce 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)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	+90	+135	+105	+75

Areas of uncertainty

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

Waste Crime

Measure description

This measure will introduce new legislation which extends the scope of Landfill Tax to disposals made at sites without an environmental disposal permit. The measure provides for additional staff to enforce the new legislation.

This measure will be effective from 1 April 2018, and will apply to sites in England and Northern Ireland.

This measure will increase Environment Agency resourcing between 2018-19 and 2021-22 to improve the prevention of waste crime. In particular, three aspects of waste crime will be targeted:

- preventing illegal waste sites (i.e. non-permitted sites)
- preventing the misdescription of waste
- preventing illegal waste exports

The cost base

The tax base uses illegal waste trend data from the Environment Agency. The standard rate of Landfill Tax is applied to the estimated tonnage of material at sites without an environmental permit on 1 April 2018. It also estimates the tonnage of material disposed at sites occurring after 1 April 2018.

Costing

The costing estimates the number of illegal waste sites expected to be assessed for Landfill Tax each year. Landfill Tax and VAT are then applied. A penalty will also be payable under this measure when they have been assessed for Landfill Tax.

The costing assumes the additional funding for the Environment Agency will be used to increase its enforcement staffing to deliver outcomes on illegal waste sites, misdescription, and illegal waste exports in line with measured results of previous funding for these activities.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+30	+45	+45	+50	+45

Areas of uncertainty

The main uncertainties in this costing relate to the assumed elasticity of demand and the impact on other taxes.

Fraud, Error, and Debt: greater use of real-time information

Measure description

This measure will enable DWP to make more effective use of data in their housing benefit caseload to identify fraud and error relating to changes in income. This element of the policy will be effective from February 2018.

This measure will use improved data to check earnings and occupational pension data and ensure accurate payment of Carer's Allowance entitlements. This element of the policy will be effective from September 2018.

The cost base

The cost base for this measure is forecast annually managed expenditure (AME) savings from improved data giving a more accurate view of housing benefit entitlement.

Costing

The costing is estimated by extrapolating the results of a 1% sample group of housing benefit claimants and using real time data to estimate housing benefit awards. AME impacts were calculated from adjustment to award during this pilot exercise. The second element is estimated using DWP's estimate of the current overpayment caseload.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+85	+75	+65	+40	+40

Areas of uncertainty

The main area uncertainty in this costing relates to the level of fraud identified.

Corporation Tax: freeze indexation allowance from January 2018

Measure description

Indexation allowance is a tax relief given to corporations to allow them to write off the inflation from the value of an asset on which chargeable gains are payable when they sell it.

This measure freezes the amount of indexation allowance that is due when a corporation disposes of an asset.

The freeze is effective from 1 January 2018.

The tax base

The tax base for this costing is the amount of indexation allowance used, and is estimated from filed Corporation Tax returns and computations. Data on the age of the assets is used to estimate the way the measure would build up over time.

The tax base is adjusted for gains from life assurance companies and a small element of indexation within Capital Gains Tax, which would also be removed under this measure. It is projected over the forecast period using the OBR Autumn Budget 2017 RPI forecast.

Costing

The static yield was calculated by multiplying the Corporation Tax tax base by the Corporation Tax rate. An adjustment is applied to allow for the extent to which other losses or reliefs might offset the increase in taxable profits from removing indexation allowance.

The costing also includes a behavioural effect to allow for the affected population finding ways to mitigate the impact of the changes.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	+30	+165	+265	+345	+440	+525

Areas of uncertainty

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

Capital Gains Tax: extend to all non-resident gains from April 2019

Measure description

The measure taxes gains made by non-UK residents disposing of UK immoveable property, whether the disposal is made directly, or indirectly via a property-rich company or 'envelope'.

This measure will be effective on gains accruing after April 2019.

The tax base

The tax base consists of gains on UK property disposed of by non-UK resident people and entities, which includes individuals, trusts and companies.

These include gains on disposals of interest in:

- commercial properties held directly
- commercial properties held indirectly, by interests in property-rich entities
- residential property held directly and indirectly by widely held companies (not currently in scope of Corporation Tax and Capital Gains Tax)

Existing exemptions from capital gains for non-residents would apply.

Costing

The static yield is the chargeable gains on UK commercial and residential property multiplied by the relevant tax rates. Behavioural adjustments have been made to the static costing to take account of changes in disposals of affected properties, as well as tax planning activity by affected tax payers.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	+5	+15	+35	+115	+140	+160

Areas of uncertainty

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

Non-resident property income: move from Income Tax to Corporation Tax

Measure description

This measure brings non-resident corporate landlords, who pay Income Tax (IT) on UK property profits, into the Corporation Tax (CT) regime including anti avoidance provisions in the CT regime. The measure also brings non-resident companies' gains liable to Non-Resident Capital Gains Tax into CT.

The measure will be effective from 6 April 2020.

The tax base

The tax base is non-resident companies' UK taxable property income currently liable for IT and gains currently liable to Non-Resident Capital Gains Tax. This is established using data reported by non-resident companies to HMRC in their annual income tax returns.

Costing

The static costing is calculated by estimating the difference in the tax liability resulting from the changes in tax rates and rules of moving the relevant property income and gains to the CT regime from the current IT and Non-Resident Capital Gains Tax regimes.

A behavioural adjustment is made to account for affected companies restructuring their operations and financing in order to minimise any additional tax liabilities arising under CT rules.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	0	+690	-310	-25

Areas of uncertainty

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

Capital Gains Tax payment window reduction: delay to April 2020

Measure description

At Autumn Statement 2015, the Government announced a measure to reduce the payment window for Capital Gains Tax (CGT) due on residential property from 10-22 months to 30 days after the transaction.

Under this measure, the start date of the Autumn Statement 2015 measure will change from April 2019 to April 2020.

The cost base

The tax base consists of all capital gains which are subject to CGT on the sale of residential property.

The tax base grows over the forecast period in line with OBR Autumn Budget 2017 house price forecast and property transaction volumes.

Costing

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

The costing includes a behavioural effect to account for those who continue to pay on the premeasure timescales due to error or lack of awareness. It also includes a small compliance benefit.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	-1,200	+945	+235	+10

Areas of uncertainty

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

VAT registration threshold: maintain at £85,000 for two years

Measure description

This measure maintains the VAT registration threshold at £85,000 in 2018-19 and 2019-20.

This measure will be effective from 1 April 2018.

The tax base

The tax base is the number of firms with VAT taxable turnover above the VAT threshold.

Costing

The costing estimates the difference between the number of business who will be registered for VAT in the pre-measures forecast baseline, and the number who will be registered post-measure. The costing then estimates the impact on VAT revenue that would result from this change in number of firms above the VAT registration threshold.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+15	+55	+105	+145	+170

Areas of uncertainty

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

Tobacco Duty: continue escalator and index Minimum Excise Duty

Measure description

This policy reinstates the RPI plus 2% escalator on tobacco duty to the end of the current Parliament, and an additional 1% rise in duty rates on hand-rolling tobacco in 2017-18.

The minimum excise tax sets the minimum duty due on a packet of cigarettes – this means that the total excise duty on a packet of cigarettes is the higher of either the MET, or the usual application of duties.

This measure will be effective from 6pm on 22 November 2017.

The tax base

Tobacco Escalator: The tax base is composed of tobacco cleared into the UK market. This is forecast in line with the OBR Autumn Budget 2017 forecast for tobacco duty revenues.

Minimum Excise Duty: The tax base is a subset of cigarette clearances.

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 of UK duty paid products resulting from higher prices.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	+45	+35	+40	+45	+40	+35

Areas of uncertainty

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

Scotland police and fire: VAT refunds

Measure description

This measure will allow the Scottish Police Authority and Scottish Fire and Rescue Service to recover VAT incurred on their purchases. It would also allow all combined authorities, and all newly created fire and rescue authorities, to recover VAT in the same way. Presently they can only do so once individual Treasury orders have been enacted.

This measure will be effective from April 2018.

The tax base

The tax base is the current level of irrecoverable VAT paid by the Scottish Police Authority and the Scottish Fire and Rescue Service. This is calculated using information in their annual accounts.

The other affected authorities are not currently incurring irrecoverable VAT so do not form part of the tax base.

Costing

The static cost is the total value of irrecoverable VAT for the Scottish Police and Scottish Fire and Rescue Services. The measure will allow the bodies to recover VAT in full because they would be able to claim VAT refunds for all of it.

There is no additional cost associated with the other combined authorities and newly created fire and rescue authorities, since they replace bodies which can already recover VAT to the same extent.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-40	-40	-40	-45	-45

Areas of uncertainty

The main uncertainty in this costing relates to the value of VAT refunds for the Scottish Police Authority and the Scottish Fire and Rescue Service.

Air Quality: increase Company Car Tax diesel supplement by 1ppt from April 2018

Measure description

This measure increases to the Company Car Tax diesel supplement to 4% (from 3%) in 2018-19 and extends the diesel supplement, from April 2018. This measure only applies to diesel cars that do not meet the Real Driving Emissions step 2 standard (RDE2). This measure also eliminates this diesel supplement for cars which do meet the RDE2 standard, and charges company-car drivers with such cars at the same appropriate percentage as their petrol equivalent.

The tax base

The total taxable benefit for company cars is estimated from the HMRC employer compliance system, which captures information on company cars from expenses and benefits forms. This data is projected forward for future years.

Costing

The costing is calculated by taking the forecast baseline and applying the difference in the forecast and policy duty rates. Behavioural responses are included to take into account the change in the total taxable benefit from company cars in response to a change in tax rates.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+70	+35	-30	+130	+90

Areas of uncertainty

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

Air Quality: First Year Rate increased by one VED band for new diesels from April 2018

Measure description

This measure will put all new diesel cars registered after 1 April 2018 up one Vehicle Excise Duty band in their first-year rate, unless they are certified to meet the Real Driving Emissions step 2 standard (RDE2). This standard indicates that the vehicles are able to meet Euro 6 emissions standards under real-world driving conditions, as well as in laboratory conditions.

The measure will be effective from 1 April 2018.

The tax base

The tax base for the policy is VED liabilities of all diesel cars registered after 1 April 2018 and not certified as meeting the RDE2 standard.

Costing

The static yield is calculated by multiplying the stock of diesel cars in the tax base by the tax supplement that will result from each band change. Behavioural responses to this policy change are estimated to be negligible due to the low level of the tax increase in relation to car purchase price.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	+125	+50	+10	neg	neg

Areas of uncertainty

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

NICs: maintain Class 4 NICs at 9% and delay NICs Bill by one year

Maintain Class 4 NICs at 9%

Measure description

The main rate of Class 4 NICs will remain at 9%, rather than increasing to 10% in April 2018 and then to 11% in April 2019, as was previously planned.

The tax base

The tax base consists of self-employed profits subject to Class 4 NICs. The tax base is estimated using data on taxable incomes taken from the Survey of Personal Incomes (SPI). The data used is for the tax year 2014-15, and is projected forward over the forecast period in line with the latest OBR Autumn Budget 2017 determinants.

Costing

The Exchequer impact is estimated using administrative data on UK taxpayer numbers and income. The pre- and post-measure tax regimes are applied to the tax base described above to estimate the impact of the measure in terms of the difference in Income Tax and NIC liabilities. The costing also includes the reversal of the assumed behavioural response that would have resulted from the Class 4 NICs increase.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	-330	-655	-630	-530	-500

Areas of uncertainty

The main uncertainties in this costing relate to the projection of SPI data from 2014-15 and the size of the behavioural responses.

NICs: maintain Class 4 NICs at 9% and delay NICs Bill by one year

Delay NICs Bill by one year

Measure description

This measure postpones the abolition of Class 2 NICs and the introduction of employer Class 1A National Insurance contributions to all termination payments over £30,000 where income tax is currently due by one year.

The tax base

For the C2 NICs element the tax base is estimated using data on taxable incomes taken from the Survey of Personal Incomes (SPI). The data used is for the tax year 2014-15 It including taxpayer numbers and incomes, is projected forward over the forecast period in line with OBR Autumn Budget 2017 determinants. A similar approach is then taken for termination payments, which are also grown in line with OBR determinants.

Costing

The costing is estimated by modelling the impact on the tax base of postponing the introduction of a charge for employer National insurance and Class 2 NICs.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	-10	+205	+10	-55	-35	-25

Areas of uncertainty

The main uncertainties in this costing relate to the projection of SPI data from 2014-15 and the size of the behavioural responses.

Making Tax Digital: only apply above VAT threshold and for VAT

Measure description

Making Tax Digital (MTD) was announced at Autumn Statement 2015. The scope of the policy has been changed so that businesses will not be mandated to use the MTD system until April 2019, and then only to meet VAT obligations. This will apply to businesses above the VAT threshold. Businesses will still be able to use the system to meet Income Tax and National Insurance (IT and NICs) obligations on a voluntary basis.

The tax base

The tax base is the VAT, IT, NICs and Corporation Tax lost from mistakes caused by error and failure to take reasonable care for all businesses and property owners. The tax base grows over the forecast period in line with OBR Autumn Budget 2017 receipt projections and VAT theoretical liabilities.

Costing

The costing is estimated by applying a behavioural response to the proportion of the tax base impacted by this change. This response captures the impact of taxpayers improving their compliance through better, more timely record keeping, and the prevention of some errors. The cost is calculated as the difference between the response expected under the original measure and that expected following the changes to scope and timetable.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	neg	neg	-65	-245	-515	-585

Areas of uncertainty

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

Social rented sector: maintain current rent policy without Local Housing Allowance cap

Measure description

The government will not be proceeding with the introduction of Local Housing Allowance rates for housing benefit or Universal Credit entitlements in the social rented sector, previously scheduled for April 2019.

From April 2020, a new funding model will be introduced for short-term supported housing.

The cost base

The cost base is estimated using the OBR's Autumn Budget 2017 forecast of housing benefit expenditure (including Universal Credit housing entitlement) in the social rented sector.

Costing

The costing calculates the difference in welfare expenditure between the pre- and post-measure regimes in steady state, and then calibrates the impact upwards to match analysis on the size of the short-term supported housing sector. This is then adjusted with the build-up over time of the number of households affected by the measure.

No significant behavioural effect is anticipated as a result of not applying Local Housing Allowance rates in the social rented sector. There may be some behavioural effect associated with the change to the funding model for short-term supported housing, depending on whether providers will have any ability to influence whether there are any types of accommodation that could potentially fall under welfare funding or the new funding regime. This has been reflected in the underlying costing.

Exchequer impact (£m)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Exchequer impact	0	0	-155	-205	-255	-320

Areas of uncertainty

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

Annex A

Indexation in the public finance forecasts baseline

As the first Budget in the new annual tax policymaking cycle, the government's aim is to provide greater tax certainty for households and businesses by spending longer consulting with taxpayers and changing taxes less frequently. To accommodate the move to an Autumn Budget, the government has changed the forecasted timetable for the uprating of duties. These are designed to be neutral as far as possible, for receipts in steady state and before government policy decisions:

- Air Passenger Duty rates will uprate using Q2 to Q2 RPI, in the previous cycle, uprating was on the basis of Q3 to Q3 RPI.
- Alcohol and Tobacco Duties will uprate using Q2 to Q2 RPI. In the previous cycle, uprating was on the basis of Q3 to Q3 RPI.
- Aggregates Levy rates will uprate using Q2 to Q2 RPI. In the previous cycle, uprating was on the basis of Q3 to Q3 RPI.
- Climate Change Levy rates will uprate using Q2 to Q2 RPI. In the previous cycle, uprating was on the basis of Q3 to Q3 RPI.
- Fuel Duty rates will uprate using Q2 to Q2 RPI, in the previous cycle, uprating was on the basis of Q3 to Q3 RPI.
- Gaming Duty thresholds will uprate using Q2 to Q2 RPI, in line with other excise duties. In the previous cycle, uprating was on the basis of Q4-Q4 outturn RPI.
- Landfill Tax rates will uprate using Q2 to Q2 RPI, in the previous cycle, uprating was on the basis of Q3 to Q3 RPI
- The VAT registration threshold will uprate in line with the latest available RPI outturn data in good time before the Budget (for Autumn Budget 2017, this is September data). In the previous cycle, uprating was on the basis of December RPI.
- Vehicle Excise Duty rates will uprate in line with Q2 to Q2 RPI. In the previous cycle, uprating was on the basis of Q3 to Q3 RPI.

In certain cases, for this year, the government has changed the indexation assumption for this year, to avoid double counting. For example, the default indexation assumption for alcohol duties (before government policy decisions) for this year was to uprate using Q3 2017 to Q2 2018, to avoid double counting of Q2 2017 RPI.

These reflect the new default indexation assumptions. In certain cases, the government has taken policy decisions to change these indexation assumptions. The effect of these decisions is set out in Table 2.1 in the Budget Document, and further detail on the costing of those measures is set out in this Policy Costings Document.

The following table shows the indexation assumptions that have been included in the public finances forecast baseline, including all pre-announcements, for Autumn

Budget 2017 policy costings. Unless otherwise stated, changes are assumed to take place in April each year and tax raises are fixed.

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2018-19 onwards
Income tax	Personal allowance	Increase the personal allowance by CPI, rounded up to the nearest £10	
	Basic Rate Limit	Increase the basic rate limit by CPI, rounded to the nearest £100	
	Personal savings allowance	Fixed at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers	
	Starting rate limit for savings income	CPI, 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	
	Pensions Tax Relief – tapered annual allowance	Annual allowance is tapered for individuals with income over £150,000 (including pension contributions)	
	Pensions Tax Relief – Money Purchase Annual Allowance	Fixed at £4,000	
	Pensions Tax Relief – Lifetime Allowance	September's CPI, rounded to the nearest £100	
	Individual Savings Accounts – annual subscription limit	In line with CPI, rounded to the nearest £120	

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2018-19 onwards
	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 to the nearest £1pw	
	Primary threshold / lower profits limit	CPU, rounded to the nearest £1pw. Annual PT/LPL is weekly multiplied by 52	
	Secondary threshold	CPI, rounded to the nearest £1pw	
	Upper earnings limit / upper profits limit	Align with income tax Higher Rate Threshold	
	Small profits threshold	CPI, rounded to the nearest £1pw	
	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 £3,000	
Capital gains tax	Main annual exempt amount	CPI, rounded to the nearest £100	
	Annual exempt amount for trustees	Half of the main annual exempt amount	
	Lifetime allowance for entrepreneur's relief	Fixed at £10 million	
Inheritance tax	Nil rate band	CPI, rounded to the nearest £1,000	Freeze in the nil-rate band until 2020-21 (freeze at £325,000)
Working-age social security benefits and payments: Jobseeker's Allowance; Income Support; Employment	All main rates	September's CPI	The personal allowances of the working-age benefits; the ESA WRAG component and its UC equivalent; and Local

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2018-19 onwards
and Support Allowance; Housing Benefit			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, September's CPI or 2.5% rounded to the nearest 5p	
Additional State Pension	All categories	September's CPI rounded to the nearest 1p	
New State Pension	All categories	Highest of earnings, September's CPI or 2.5% rounded to the nearest 5p	
Pension Credit	Guarantee Credit	Earnings	
	Savings Credit	September's CPI	
Child Tax Credit	Family element	Fixed at £545 per year	
	Child element	September's CPI, rounded to the nearest £5	Four-year uprating freeze from 2016-17

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2018-19 onwards
	Disabled and enhanced disabled child elements	September's CPI, rounded to the nearest £5	
Working Tax Credit	Basic element, 30-hour element, second adult element, lone parent element	September's CPI, rounded to the nearest £5	Four-year uprating freeze from 2016-17
	Disability elements	September's CPI, rounded 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 transaction	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	
Aggregate levy	Levy amount	RPI	
Landfill tax	Tax rates	RPI, rounded to the nearest 5p	
Vehicle excise duty	Duty rates	RPI, rounded to the nearest £1 or £5	
Air passenger duty	Duty rates	RPI, rounded to the nearest pound	
Tobacco duties	Duty rate on all tobacco products	RPI	

Forecast area	Element	Default indexation assumed in the baseline	Pre-announced policy changes from 2018-19 onwards
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	Freeze from April 2018
Business rates	Business rates multiplier	RPI	Multiplier will increase by CPI from April 2020