HM Treasury

Budget 2020:
policy costings

March 2020

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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 Statement 2019, where those policies have a fiscally material impact on the public finances. These costings are all submitted to the independent Office for Budget Responsibility (OBR) for their certification. All but three measures were certified. This publication is part of the government's wider commitment to increased transparency.

Chapter 2 presents detailed information on the main data and assumptions underpinning the costing of policies in the Budget. Each note sets out a description of the measure, the base, the methodology for the costing (including relevant adjustments for behavioural responses) and highlights main 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. The OBR sets out the approach they have taken to scrutiny and certification of the costings, and highlights areas of particular uncertainty, in Annex A of the EFO.

Chapter 2

Policy costings

The following are included in this chapter:

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Immigration Health Surcharge: increase to £624 with £470 rate for children and extend to EEA nationals

Measure description

This measure increases the Immigration Health Surcharge from the current level of £400 per year to £624 per year for each surcharge liable non-EEA temporary migrant (including dependants). The measure also increases the discounted rate for students, their dependents and those on the Youth Mobility Scheme from £300 to £470. The surcharge will also be set at £470 for all children under the age of 18.

This will be implemented in October 2020 and expanded to include future EEA temporary migrants at the increased rate from January 2021.

The cost base

The cost base is all non-EEA temporary migrants who make a successful immigration application to come to the UK for more than 6 months, or who apply to extend their stay in the UK, subject to certain exemptions. From January 2021, the base will also include EEA temporary migrants under the same conditions. OBR forecasts on the volume of total granted applications and the average length of stay of temporary migrants are used to estimate the cost base.

Costing

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

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	+150	+355	+355	+360	+355

Areas of uncertainty

The main area of uncertainty relates to the wider impacts of the future migration system, for example on migration numbers. In addition, no behavioural effect from the increased fee is included, which may reduce the estimated additional volumes, and therefore revenue.

Pensions: increase annual allowance taper threshold and adjusted income limit, reduce minimum annual allowance

Measure description

This measure changes aspects of the pensions tapered annual allowance. Both income levels for the tapered annual allowance (against which an individual's "threshold income" and "adjusted income" are tested) will increase by £90,000: the "threshold income" level increases from £110,000 to £200,000, and the level against which "adjusted income" is tested increases from £150,000 to £240,000. For individuals with "adjusted income" over £240,000, the annual allowance begins to taper down. The minimum tapered annual allowance will reduce to £4,000 at an "adjusted income" level of £312,000 and above.

This measure will be implemented from April 2020.

The tax base

The tax base is all members of pension schemes whose annual allowance is currently subject to the taper. This is estimated using a mixture of survey data and administrative taxpayer data, and is projected over the forecast horizon using OBR determinants.

Costing

The static 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 some affected individuals choose to make higher pension contributions.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-180	-315	-450	-560	-670

Areas of uncertainty

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

Public Works Loan Board: increase main rate, with reduced rates for social housing and infrastructure

Measure description

This measure consists of changes to Public Works Loan Board (PWLB) lending to local authorities. The interest rates on new PWLB loans were increased by 100 basis points (bps) on 9 October 2019. From 12 March 2020 rates on new PWLB loans from the Housing Revenue Account will be reduced by 100bps (to 80bps above gilts for most local authorities), to support the delivery of social housing. Additionally, the government will lend up to £1.156 billion through the PWLB to local authorities to support infrastructure projects at a discounted interest rate of 60bps above gilts.

The cost base

This measure affects local authorities in England, Scotland, and Wales.

Costing

The rate rise is expected to reduce LAs' demand for PWLB borrowing while the discounts for local infrastructure and social housing are expected to increase demand.

The costing is estimated by comparing historical LA borrowing to PWLB rates and reducing forecast LA borrowing and PWLB borrowing appropriately. Changes in LA payments to central government as a result of changes in PWLB lending and margins are also calculated.

Exchequer impact (£million)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Exchequer impact	+105	+60	+175	+205	+270	+325

Areas of uncertainty

The main uncertainty in this costing relates to the change in LAs' use of PWLB borrowing as a result of rate changes.

National Insurance: increase Primary Threshold and Lower Profit Limit to £9,500 in April 2020

Measure description

This measure increases the Primary Threshold (PT) and Lower Profits Limit (LPL) to £9,500 in 2020-21. The thresholds increase in line with CPI thereafter. The Secondary Threshold (ST) is not affected.

The tax base

The tax base and static costing is estimated via HMRC's Personal Tax Model (PTM) using Survey of Personal Incomes (SPI) data for 2017-18, projected using OBR economic determinants.

Costing

The costing is estimated by applying the pre- and post-measure National Insurance regimes to the tax base described above. An adjustment was made to take account of the behavioural response.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	neg	-2,110	-2,185	-2,360	-2,370	-2,370

Areas of uncertainty

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

Fuel duty: freeze for 2020-21

Measure description

This measure freezes the main rate of fuel duty at 57.95 pence per litre for 2020-21. From 2021-22 and onwards, fuel duty rates on all fuels are assumed to increase by RPI.

The tax base

The tax base is every litre of taxable fuel that is made available for use in the UK. The projected volumes of taxable fuel 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 account for an increase in consumption in response to lower fuel price increases.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-525	-530	-540	-555	-560

Areas of uncertainty

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

Alcohol Duty: freeze all rates for 2020-21

Measure description

This measure freezes all alcohol duties, instead of increasing by RPI effective from 1 February 2020.

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 alcohol duty receipts 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 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 and where the alcohol is consumed. The proportion that is tax is determined by the type of alcohol and its price.

Exchequer impact (£million)

The costing included in Table 2.1, and incorporated into the final Budget forecast, is below:

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	-40	-285	-295	-305	-310	-320

A modelling correction has since been made, which was available too late to be reflected in Table 2.1 or the OBR's forecast. The corrected costing is below. This will be included in the next OBR forecast.

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	-30	-190	-195	-200	-205	-210

Areas of uncertainty

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

VAT: zero rate e-publications

Measure description

The measure reduces the rate of VAT on e-publications from the standard rate to the zero rate with effect from 1 December 2020.

The tax base

The value of sales of e-publications is estimated from various trade association sources and other market data.

The tax base is grown over the forecast horizon with the projected future growth of the digital publications market.

Costing

The static 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, as there is likely to be some forestalling as purchases are delayed during the pre-announcement period.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-60	-175	-185	-190	-200

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and the growth of the market over the scorecard period.

National Insurance: NICs holiday for employers of veterans in first year of civilian employment

Measure description

This measure is a holiday (0% rate) on Class I Secondary National Insurance contributions for employers of veterans who have left regular service. It lasts one year from the date of commencement of the eligible veteran's first civilian employment.

This measure will be effective from April 2021.

The tax base

The tax base consists of the wages, between the Secondary Threshold and the Upper Earnings Limit, of recent armed forces service leavers who are then subsequently employed by another employer.

Costing

The static 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 including take-up and employment impacts.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	-15	-20	-25	-25

Areas of uncertainty

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

VAT: abolish VAT on female sanitary products from 1 January 2021

Measure description

The measure implements a zero rate of VAT on female sanitary products, which replaces the current reduced rate of 5%. The measure will be implemented from 1 January 2021.

The tax base

The tax base is estimated using data supplied by a market research provider, on purchases of women's sanitary products.

Costing

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

There is no behavioural response associated with this costing.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-5	-15	-15	-15	-15

Areas of uncertainty

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

Vehicle Excise Duty: change classification of new motorhomes from 12 March 2020

Measure description

This measure treats motorhomes as Private and Light Goods vehicles (PLGs) for VED purposes from 12am, 12 March 2020 to the 1 April 2021. Thereafter, new motorhomes will be registered as vans and will be entitled to pay van VED rates instead of car VED rates.

The tax base

The tax base for this policy is all motorhomes registered from 12th March 2020, who will be registered as cars as per EU regulations. Some motorhomes already hold derogations and are already not registered as cars, and are therefore excluded from the tax base.

Costing

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

The VED rate makes up a small proportion of the final price and running costs of the vehicle, so any behaviour is likely to be negligible.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	neg	-15	-20	-25	-30	-35

Areas of uncertainty

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

Personal Independence Payment: reduce frequency of reassessments

Measure description

This measure reduces the frequency of health assessments required for people receiving Personal Independence Payment (PIP). For those whose condition is unlikely to change, this measure sets a minimum award review length of 18 months.

This measure will be effective from June 2020 onwards.

The cost base

The cost base consists of the pre-measures forecast for total expenditure on PIP.

Costing

The costing is estimated by applying to the cost base the effect of delaying award reviews. As the average change at award reviews is a reduction in the award amount, delaying award reviews increases PIP expenditure.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	0	-55	-75	-90

Areas of uncertainty

The main uncertainties relate to the volume of award reviews and how much award amounts change at award reviews.

Neonatal Leave: new entitlement to up to 12 weeks paid leave

Measure description

This measure creates a new statutory pay and leave entitlement for parents of babies requiring neonatal care, to support parents to balance employment with the challenges brought by having a baby in neonatal care. This measure will be effective from April 2023.

The cost base

As there is currently no existing statutory pay entitlement available to parents in relation to time in neonatal care, there is no pre-measure cost base applicable.

Costing

The costing is based on the number of eligible parents (using National Neonatal Research Database; NHS data; ONS data; and the Labour Force Survey), a take up assumption based on existing take up of paternity leave, and the number of small and large employers (using Business Population Estimates).

The costing is grown in line with the OBR's forecast for CPI.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	0	0	-15	-15

Areas of uncertainty

The main uncertainties in this costing relate to take up.

Housing Benefit: further shared accommodation rate exemptions

Measure description

This measure exempts care leavers aged between 22 and 24, rough sleepers under 25 years old and victims of domestic violence and modern slavery under 35 from restrictions in Local Housing Allowance and Universal Credit that limit support to the cost of a room in a shared house.

This measure will be effective from October 2023.

The cost base

The cost base is estimated using DWP benefit expenditure forecasts and economic determinants as forecast by the OBR.

Costing

The costing is calculated by assessing the impact of the change on the average entitlement to Local Housing Allowance (LHA) of the affected caseload.

Caseload projections have been estimated using DWP's administrative data, along with ONS data from the crime survey of England and Wales and quarterly National Referral Statistics from the Home Office.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	0	0	-10	-15

Areas of uncertainty

The main area of uncertainty in this is around the size of behavioural response and projections of LHA caseload.

Capital Allowances: increase structures and buildings allowance rate to 3%

Measure description

This measure will increase the existing structures and buildings capital allowance for all qualifying expenditure incurred on structures and buildings from 2% to 3%.

This measure will be effective from 1 April 2020 for the purposes of Corporation Tax and 6 April 2020 for the purposes of Income Tax.

The tax base

The tax base for this measure is estimated using ONS construction data on new expenditure in the private sector to derive new expenditure on structures and buildings made in 2018. This is grown in line with the OBR's forecast for RPI.

Costing

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

The costing includes an adjustment for behavioural effects.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	-15	-90	-165	-210	-260	-295

Areas of uncertainty

The main area of uncertainty is the amount of qualifying expenditure, as the measure is relatively new and currently no data is collected by HMRC to determine the amount of qualifying expenditure.

Research and Development Expenditure Credit: increase rate to 13%

Measure description

The measure increases the Research & Development Expenditure Credit (RDEC) rate from 12% to 13%.

This measure will be effective from 1 April 2020.

The tax base

The tax base is the qualifying R&D expenditure of companies claiming RDEC. This was estimated using published national statistics for accounting periods ending in 2017-18, forecast forward using the OBR's business investment determinants.

Costing

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

The extra cost from increased R&D expenditure incentivised by the rate increase has been included in the costing as a behavioural effect.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	neg	-170	-275	-300	-310

Areas of uncertainty

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

Employment Allowance: increase from £3,000 to £4,000

Measure description

This measure will increase the Employment Allowance from £3,000 to £4,000. This measure will come into effect from April 2020.

The tax base

The tax base for this measure consists of eligible employers' Class I Secondary National Insurance Contributions, between the values of £3,000 and £4,000.

Eligible employers are those who have a Class 1 Secondary National Insurance liability of under £100,000 in the previous tax year, and who do not breach *de minimis* state aid rules.

Costing

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

The costing accounts for a small behavioural response.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-445	-455	-465	-470	-475

Areas of uncertainty

The main uncertainties in this costing relate to potential *de minimis* state aid impact for employers in the agriculture and aquaculture industries.

Business Rates: increase retail discount to 50%, and extend to cinemas and music venues for 2020-21

Measure description

This measure increases the business rate discount rates for retailers including shops, cafes and restaurants in England with a rateable value of less than £51,000 to fifty per cent for the year in 2020-21, up from one third in 2019-20. This measure also extends the discount to include cinemas and music venues.

This measure will be effective from April 2020 for one year.

The tax base

The tax base consists of the total rateable value of retail properties with a rateable value below £51,000 in England, the occupiers of which do not breach *de minimis* state aid rules, multiplied by the 2020-21 business rates multipliers.

Costing

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

The costing includes no adjustments for behavioural effects.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	+10	-270	-15	0	0	0

Areas of uncertainty

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

Business Rates: £1,000 discount for pubs with rateable value less than £100,000 for 2020-21

Measure description

This measure grants a discount of £1,000 on business rates for pubs in England with a rateable value of less than £100,000.

This measure will be effective from April 2020 for one year.

The tax base

The tax base consists of the total rateable value of pubs with a rateable value below £100,000 in England, the occupiers of which do not breach *de minimis* state aid rules, multiplied by the 2020-21 business rates multipliers.

Costing

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

The costing includes no adjustments for behavioural effects.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	neg	-20	neg	0	0	0

Areas of uncertainty

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

Corporation Tax: relief for pre-2002 intangible fixed assets

Measure description

The measure allows intangible fixed assets (IFAs) acquired from related parties on or after 1 July 2020 to come within Part 8 of Corporation Tax Act 2009 (CTA09) that would otherwise be excluded by the commencement rules. These assets are referred to in that Act as 'pre-FA 2002 assets'. This measure removes a restriction that exists in relation to pre-FA 2002 intangible assets that prevents some companies from claiming relief on them. This means that corporate intangible assets will now be relieved and taxed under a single regime for acquisitions from 1 July 2020.

Transitional rules will be introduced to protect companies holding intangible assets that are within the charge to corporation tax immediately before 1 July 2020 including those companies with accrued gains or losses on intangible assets dealt with under the capital gains rules.

The tax base

The tax base is the value of relief provided on new acquisitions of pre-FA 2002 assets. The tax base was calculated using inward investment data and tagged data from company accounts for 2016-17 and 2017-2018.

Costing

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

The costing accounts for an increase in inward investment and companies deferring transactions or using other methods to obtain the relief.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	-5	-25	-60	-95	-140	-185

Areas of uncertainty

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

Renewable Heat Incentive: extend

Measure description

This consists of two measures on the Renewable Heat Incentive (RHI). The first measure extends the domestic RHI to new applicants to 31 March 2022. The second measure creates a new flexible allocation of Tariff Guarantees under the Non-domestic RHI, allowing plants to commission after 31 March 2021.

The cost base

The cost base consists of the pre-measures forecast for total expenditure of the RHI, at Budget 2020.

Costing

The static costing is estimated by calculating the difference between the pre- and post-measure base of forecast spend under the scheme. As spend on the RHI only affects consumers who choose to participate in the scheme, no behavioural effects are anticipated as a result of this policy.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	-10	-30	-35	-35

Areas of uncertainty

The RHI is a demand led scheme. The main area of uncertainty in these costings is around the forecast of deployment that will come forward as a result of the policy change.

Plastic Packaging Tax: 30% recycled content threshold and £200 per tonne

Measure description

This measure introduces a tax on plastic packaging that does not contain at least 30% recycled content. The rate will be £200 per tonne in the first year, increasing by CPI in following years. This tax will be implemented from 1 April 2022.

The tax base

Domestically produced or imported plastic packaging is estimated to be approximately 2,100 k tonnes in 2022-23. This estimate is based on the Waste and Resources Action programme (WRAP) Plastic Flow 2018 publication and the annual average reported for the Packaging Recovery Note (PRN) system. The tax base only relates to plastic packaging with less than 30% recycled content and excludes packaging produced or imported by businesses handling fewer than 10 tonnes of plastic packaging per year.

Costing

The static costing is estimated by applying the tax rate to the tax base described above.

The costing accounts for a behavioural response due to the policy, most significantly an increase in recycled content. Smaller behavioural adjustments include business behaviour such as reducing plastic packaging use, and consumer reduction of purchases of products containing plastic packaging.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	0	+240	+235	+220

Areas of uncertainty

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

Red Diesel: remove relief for sectors other than rail, home heating and agriculture

Measure description

This measure removes the entitlement to use red diesel and rebated biofuels from all its present uses, except in agriculture, fish farming, the railways and where it's used to power non-commercial heating systems. The affected uses will therefore pay the main rate of fuel duty. As of 2019-20, the red diesel fuel duty rate is 11.14 pence-per-litre (ppl), and the main rate of fuel duty is 57.95ppl.

The measure will be implemented from 1 April 2022.

The tax base

The tax base is all gas oil (diesel) and biofuels that would presently pay the red diesel rate, besides that used for agriculture (including horticulture, pisciculture and forestry), rail and non-commercial heating. The projected volumes of total red diesel and rebated biofuels are taken from the fuel duty forecasting model. This model forecasts clearances using an econometric relationship between GDP and lagged clearances. The BEIS publication Digest of United Kingdom Energy Statistics (DUKES) is used to estimate the proportion of red diesel that would have its relief removed.

Costing

The static costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. The costing also accounts for an increase in the aggregate RDEL envelope of £150million per annum departmental spending to account for the fact that part of the costs of the measure will fall upon the public sector.

The costing accounts for a behavioural response whereby elasticities are used to account for the decrease in red diesel use.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	+15	+1,575	+1,640	+1,645

Areas of uncertainty

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

Climate Change Levy: two year extension to climate change agreement scheme and open to new entrants

Measure description

The Climate Change Agreement (CCA) scheme gives qualifying businesses a reduction on their Climate Change Levy (CCL). This closed to new entrants on the 31st October 2018 and is due to run out on the 31st March 2023. This measure opens the scheme to new entrants who will be able to apply to join the scheme between Budget 2020 (when the measure is announced) and September 2020. This measure will also extend the CCA scheme for another 2 years until 31 March 2025.

The tax base

Climate Change Agreements are voluntary agreements between UK industry and the government under which qualifying industry receive a discount on their Climate Change Levy bill in return for meeting energy efficiency and decarbonisation targets. Eligibility is determined on the basis of processes run by the given business, and its energy-intensity. The tax base is inclusive of energy (electricity, natural gas, solid fuels and liquid petroleum gas) delivered to non-domestic users in the UK who hold a Climate Change agreement.

Costing

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

The costing is calculated in two separate parts. The first part estimates the impact of extending the scheme for a further two years. The second part estimates the impact from the introduction of new entrants to the scheme.

The costing does not include an adjustment for behaviour.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	neg	-5	-5	-190	-190

Areas of uncertainty

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

Climate Change Levy: increase gas rate in 2022-23 and 2023-24, freeze liquid petroleum gas and other commodities

Measure description

This measure announces fuel rates of the Climate Change Levy (CCL) for 2022-23 and 2023-24 in order to meet the commitment to re-balance gas and electricity rates by 2024-25.

The tax base

The tax base for this measure is the tax base for Climate Change Levy as a whole, excluding that from businesses covered by Climate Change Agreements. This is energy (electricity, natural gas, solid fuels and liquid petroleum gas) delivered to non-domestic users in the UK.

Costing

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

The costing accounts for a behavioural response by incorporating own price elasticities.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	0	+130	+260	+270

Areas of uncertainty

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

Capital Allowances for Business Cars: extend first year allowance on zero emission cars and raise eligibility criteria

Measure description

This measure extends the availability of the First Year Allowance (FYA) on ultra-low emission vehicles from 1 April 2021 until 31 March 2025 at a reduced threshold of 0g/km. This revision also reduces the main rate (18%) threshold for the Writing Down Allowance (WDA) on a permanent basis from 2021 from 110g/km to 50g/km. Business cars with emissions larger than 50g/km will be eligible for special rate WDA (6%)

This measure will take effect from 1 April 2021.

The tax base

The tax base is the expenditure on business cars falling into each of the qualifying VED emission bands based on C02 g/km.

Costing

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

Behavioural adjustments have been applied to account for companies changing the type of car they purchase in order to fall into the tighter emission brackets and qualify for FYA and Main rate.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	neg	-5	+10	+70	+110

Areas of uncertainty

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

Carbon Price Support: freeze for 2021-22

Measure description

Carbon Price Support (CPS) rates of the Climate Change Levy (CCL) provide a 'top up' to the EU Emissions Trading Scheme (EUETS) carbon price for energy generators.

This measure will maintain CPS rates at £18 per tonne of CO_2 in 2021-22.

This measure will be effective from 1 April 2021.

The tax base

The tax base consists of the supplies of fossil fuel for most electricity generators in Great Britain.

It is estimated using the BEIS Dynamic Dispatch Model.

Costing

The static costing is calculated by multiplying the tax base by the difference between the pre- and post-measure tax rates.

The behavioural response is estimated to be negligible.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	-20	-15	-15	-15

Areas of uncertainty

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

Vehicle Excise Duty: exempt zero emission vehicles from the expensive car supplement

Measure description

This measure exempts all electric vehicles from the Expensive Car Supplement. It will be implemented from 1 April 2020.

The tax base

The tax base for this policy is the number of electric cars registered from 2017/18 onwards sold at a list price of over £40,000. Information on the list price of electric cars sold is sourced from audit data collected by Fleet Audits Ltd.

Costing

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

The costing does not include an adjustment for behaviour.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-10	-15	-20	-30	-45

Areas of uncertainty

The main uncertainties in this costing relate to the sales of electric cars.

Corporation Tax: maintain at 19%

Measure description

This measure maintains the Corporation Tax (CT) rate at 19%. The rate was previously due to reduce to 17% in April 2020. This rate does not apply to ring fenced profits of oil and gas companies which are subject to different CT rates.

The tax base

The tax base is an estimate of UK company profits based on the OBR's Budget 2020 Onshore CT forecast. The baseline for the forecast is calculated using the latest tax receipts data and is then projected in line with relevant OBR determinants.

Costing

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

The costing accounts for behavioural responses, including fewer tax-motivated incorporations and higher profit-shifting.

The costing also accounts for a small impact on company tax credits, which are classified as public spending.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	+930	+4,635	+6,120	+6,680	+7,075	+7,500

Areas of uncertainty

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

Capital Gains Tax: reduce the lifetime limit in entrepreneur's relief to £1,000,000

Measure description

This measure reduces the Entrepreneurs' Relief (ER) lifetime limit on gains eligible for the 10% rate from £10 million to £1 million, above which any capital gains currently eligible for ER would be charged at the standard Capital Gains Tax (CGT) rates.

This measure is effective from 11 March 2020.

The tax base

The tax base for this measure is all gains under CGT that are eligible for Entrepreneurs' Relief for taxpayers with ER lifetime gains exceeding £1m.

Costing

The static 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, including whereby investors defer their existing gains on assets or take earnings as income rather than gains.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	+5	+215	+1,120	+1,470	+1,670	+1,820

Areas of uncertainty

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

Stamp Duty Land Tax: 2% non-UK resident surcharge

Measure description

This measure introduces a 2% Stamp Duty Land Tax (SDLT) surcharge in England and Northern Ireland for all purchases of residential property by non-UK residents, in addition to other SDLT payable.

The measure will be implemented from 1 April 2021.

Refunds of the surcharge will be available for those who become resident after their purchase.

The tax base

The tax base is estimated using SDLT returns, income tax self-assessment returns and HM Land Registry data.

The tax base grows over the forecast period in line with the forecast for residential SDLT.

Costing

The static 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 such as forestalling before the measure is implemented, and a reduction in residential property purchases by non-UK residents.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	+250	-355	+35	+105	+105

Areas of uncertainty

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

Tobacco duty: extend RPI plus 2ppt escalator and additional 4ppt for hand rolling tobacco in 2020-21

Measure description

This measure extends the RPI plus 2% escalator on tobacco duty to the end of the current Parliament and implements an additional 4% rise in duty rates on hand-rolling tobacco in 2020-21. This measure comes into effect on at 6pm on 11 March 2020.

The tax base

The tax base is the forecast for tobacco duty revenues.

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 (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	+5	+30	+35	+30	+15	+5

Areas of uncertainty

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

Income Tax: top slicing relief amendments

Measure description

This measure updates the rules on Top Slicing Relief (TSR) to allow the personal allowance to be reinstated within the TSR calculation. It also clarifies how allowances are allocated within the TSR calculation, to confirm that they must be set as far as possible against other income in preference to the gain.

This policy is effective from 11 March 2020.

The tax base

The tax base consists of taxpayers that receive relevant life insurance policy gains. HMRC has estimated the scale of this population using self-assessment data. Growth in the tax base is projected using OBR determinants.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. There is no behavioural effect expected for this measure.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	neg	-15	-15	-15	-20

Areas of uncertainty

There is very low uncertainty associated with this measure.

Digital Services Tax: technical changes

Measure description

The measure confirms that payments due under the Digital Services Tax will be required on an annual, rather than a quarterly, basis.

This measure was announced in July 2019, alongside the publication of draft legislation, and will come into effect with the introduction of the Digital Services Tax, from 1 April 2020.

The tax base

The tax base consists of estimated government revenues from the application of the Digital Services Tax.

Costing

The costing is estimated by applying the quarterly and annual payment schedules to the tax base described above, and the yield results from the difference in their accounting treatment for the National Accounts.

The costing assumes no behavioural change.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	+65	-5	0	0	0	+70

Areas of uncertainty

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

Corporate Capital Loss Restriction: companies in liquidation

Measure description

This measure will allow unrestricted relief of carried forward capital losses against chargeable gains for an accounting period for companies under insolvent liquidation. The Corporate Capital Loss Restriction measure (5006) as announced at Budget 18 did not include an exemption for companies in liquidation. This measure will take effect from April 2020.

The tax base

The tax base is carried forward capital losses for an accounting period for companies under insolvent liquidation.

Costing

The static costing is estimated by applying the current tax regime to the tax base described above. The costing does not include an adjustment for behaviour.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	neg	neg	-5	-5	-5	-5

Areas of uncertainty

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

Aggregates Levy: freeze for 2020-21

Measure description

This measure freezes the aggregates levy at £2 per tonne for 2020-21. This measure takes effect from 1 April 2020.

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 forecast for taxable 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. The behavioural impact is negligible as the output of taxable aggregates is relatively inelastic.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-10	-10	-10	-10	-10

Areas of uncertainty

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

Heavy Goods Vehicles VED and Levy: freeze in 2020-21

Measure description

This consists of two measures. The first freezes Heavy Goods Vehicle (HGV) Vehicle Excise Duty (VED) for 2020-21 at 2019-20 levels. The second freezes all HGV levy rates for 2020-21 at 2019-20 levels.

Both measures will be effective from 1 April 2020.

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 Spring Budget 2020 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 cost is calculated by multiplying the baseline stock forecast by the policy rates and then subtracting the baseline revenue.

The VED and levy rate makes up a small proportion of the final price and running costs of the vehicle, so any behaviour is likely to be negligible.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-10	-10	-10	-10	-10

Areas of uncertainty

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

Car Fuel Benefit: increase by CPI in 2020-21

Measure description

The measure will increase the Car Fuel Benefit Charge by CPI from April 2020.

The tax base

The tax base is the projected value of the car fuel benefits from HMRC administrative data.

Costing

The static costing is produced by considering the increase in the value of car fuel benefit given the increase in the charge. No significant behavioural adjustments are made to the static costing.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	+5	+5	+5	+5	+5

Areas of uncertainty

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

Savings: maintain £20,000 limit for adult ISA in 2020-21

Measure description

This measure will maintain the ISA limit at £20,000 in 2020-21, rising with CPI thereafter.

The tax base

The tax base consists of the latest data available on ISA subscriptions projected in line with OBR forecasts.

Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. The costing is calculated by estimating the increase in tax payable on savings as a result of this change.

The costing does not include any adjustment for behavioural response.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	neg	neg	neg	neg	+5

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and the future forecasts of the return to savings.

Notification of Uncertain Tax Treatment

Measure description

This measure will introduce a requirement for businesses with a turnover above £200 million per year, or a balance sheet total of more than £2 billion, to notify HMRC where they take a tax treatment relying on an uncertain legal interpretation which HMRC is likely to challenge.

This measure will be effective from 1 April 2021.

The tax base

The overall tax base is established using the Legal Interpretation tax gap for Large Businesses. This information has been sourced from the June 2019 Tax Gaps publication, with figures projected forward across the period.

Costing

The static costing is estimated by calculating the difference between compliance yield generated pre- and post-measure, with post-measure activity focusing on higher value cases derived from notifications received. Early notification of issues is also expected to increase the proportion of cases that settle directly with HMRC, rather than proceed through a full litigation process. The costing also includes the investment in additional resource to generate additional yield through an increase in number of cases taken up by HMRC.

The costing accounts for a behavioural response.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	neg	+10	+20	+40	+45	+45

Areas of uncertainty

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

Tackling abuse in the construction industry scheme

Measure description

This measure tackles unverified claims under the Construction Industry Scheme (CIS) by allowing HMRC to amend the credit on the subcontractor's employer return where the subcontractor has neither provided evidence for the deduction nor amended their return upon challenge from HMRC.

The tax base

The tax base is the total amount offset from PAYE payments due to CIS deductions.

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 relating to attrition, appeals, and defaults.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	0	+20	+20	+15

Areas of uncertainty

The main uncertainty relates to the behavioural response.

Conditionality: hidden economy

Measure description

This measure makes the renewal of licences to drive taxis, drive and operate private hire vehicles (PHVs) (for example minicabs) and deal in scrap metal conditional on applicants' completing checks that confirm they are appropriately registered for tax. These changes may take effect in England and Wales from April 2022.

The tax base

The population for the tax base is the number of individuals or businesses with a licence to drive a taxi, drive a PHV, operate a PHV business (the latter do not necessarily drive) or deal in scrap metal who are liable for tax. The tax base is this population multiplied by their average tax assessment.

Costing

The costing is produced by estimating the additional tax collected as a result of the measure.

The costing accounts for a behavioural response whereby some licence holders are expected to cease trading to avoid complying or to attempt other means of avoidance and evasion.

Exchequer impact (£m)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	+5	+35	+50	+65

Areas of uncertainty

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

Investment in HMRC to improve tax compliance

Measure description

This proposal adds around 1,300 staff into operational teams in HMRC to improve its existing research and compliance work on emerging tax risks and to improve debt collection capability.

The tax base

The tax base consists of the tax gap for all customer segments (the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid), and overdue uncollected debt between £500 and £40,000.

Costing

The costing model varies depending on area within HMRC that this investment is made but has been calculated by estimating the additional tax collected by the additional staff, largely based on historic performance and by multiplying the tax base by the estimated collection rate.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	+55	+280	+855	+1,065	+1,075	+595

Areas of uncertainty

Areas of uncertainty in this costing relate to the assumption of collection rate.

Research and Development PAYE Cap: delay by one year and updated design

Measure description

This measure updates a measure introduced at Budget 2018. It maintains a limit on the amount of payable R&D tax credit that can be claimed by a company under the SME scheme. The limit will be set at 300% of the company's total Pay-As-You-Earn (PAYE) and Employee Class 1 National Insurance contribution (NIC) payment for the period. In addition, this measure will introduce a £20,000 threshold below which the claim will not be subject to the cap.

The measure will now come into effect from 1 April 2021.

The tax base

The tax base is the qualifying R&D expenditure of companies claiming payable tax credits under the SME scheme. This was estimated using published national statistics for accounting periods ending in 2017-18, projected forward using the OBR's business investment determinants.

Costing

The static costing is produced by estimating the difference in yield compared to the Budget 2018 measure as a result of these changes.

The costing accounts for a behavioural effect where businesses adjust their R&D expenditure or PAYE payments in response to the measure.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	0	-60	-130	-65	-35

Areas of uncertainty

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

Housing Benefit: investment in fraud detection by Local Authorities

Measure description

This measure increases investment in local authorities' staffing resource to increase capacity to tackle Housing Benefit fraud and error.

The cost base

The cost base is estimated using DWP's forecasts for Housing Benefit expenditure overpayments and recoveries, and data from local authorities on success rates of current prevention activity.

Costing

The costings are estimated by reviewing Local Authorities' current activity, and impact on reducing fraud and error from the existing investment, to make evidence-based assumptions about the impact of additional resource on overall rates of fraud and error. The costing does not account for any behavioural impacts.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	+115	+140	+125	+105	+60

Areas of uncertainty

The main uncertainties in this costing relate to assumptions of the number of successful hit rates targeting fraud and error and the volumes forecasted cases.

Independent Loan Charge Review: implementation of the recommendations

Measure description

In December 2019, Sir Amyas Morse concluded his Independent Review of the Loan Charge and the Government accepted all but one of the recommendations. This measure implements those changes and amends the existing Disguised Remuneration Loan Charge policy so that the following conditions apply.

The Loan Charge will only apply to outstanding balances of disguised remuneration loans made between 9 December 2010 and 5 April 2019 inclusive.

The Loan Charge will not apply to loans made in tax years before 2016-17 where a reasonable disclosure of the use of a disguised remuneration tax avoidance scheme was made within the relevant tax return or, where appropriate, associated documents, and HMRC failed to take any action (for example by opening an enquiry).

Those affected by the Loan Charge will be able to elect to split their loan balance over three consecutive years - 2018-19, 2019-20 and 2020-21.

The measure will be included in Finance Bill 2020 and the legislation will have effect from 5 April 2019.

The tax base

The tax base consists of historic tax due from use of these avoidance schemes that relate to loans made up to 5 April 2019. The tax base accounts for yield that is expected to be collected through Accelerated Payment Notices.

Costing

The static 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.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	-30	-305	-245	-70	-70	-25

Areas of uncertainty

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

Windrush: tax exemption for compensation payments

Measure description

This measure exempts Windrush Compensation payments from Income Tax, Capital Gains Tax and Inheritance Tax.

The tax base

The tax base is the compensation payable under the Windrush Compensation Scheme, which would otherwise have been eligible for Income Tax, Capital Gains Tax and Inheritance Tax.

Costing

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

The costing does not assume any behavioural impacts.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	neg	-5	-5	neg	neg	neg

Areas of uncertainty

The main uncertainties in this costing relatesto the number of claimants and the amounts claimed, and also uncertainty over the timing of payments across financial years.

Protecting Your Taxes in Insolvency: delay start date to December and extend to Northern Ireland

Measure description

This measure amends the Budget 2018 measure: Protecting your taxes in insolvency.

The measure has now changed to incorporate (a) a change in the implementation date to 1 December 2020 from the 6 April 2020, and (b) extending the measure to Northern Ireland.

The tax base

The tax base consists of the pre-measures estimate of the yield of the Budget 2018 measure.

Costing

The costing is produced by estimating the impact of the new implementation date and territorial scope on the yield of the measure.

There are no behavioural effects associated with this measure.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	-5	-30	-85	-35	+5	+5

Areas of uncertainty

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

Company Car Tax: temporary reduction for new cars registered from 6 April 2020

Measure description

This measure confirms Company Car Tax appropriate percentages (APs) published in July 2019 and extends 2022-23 APs for an additional two years until 2024-25

The tax base

The tax base for this measure is company cars either reporting zero emissions or first registered on and after 6 April 2020. The total taxable benefit for company cars is estimated from HMRC administrative data on company cars. This data is projected forward for future years using OBR economy determinants.

Costing

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

Behavioural responses are included to account for the expected change in the total taxable benefit from company cars in response to a change in tax rates.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-50	-50	neg	0	0

Areas of uncertainty

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

Stamp Tax on Shares: connected company transfers

Measure description

This measure extends the Stamp Taxes on Shares (STS) market value rule to the transfer of unlisted securities to connected companies where there is an issue of shares by way of consideration. Where the rule applies the transfer will be chargeable based on the amount or value of the consideration for the transfer or, if higher, the market value of the unlisted securities.

This measure will also amend related legislation so that company reorganisations will not be subject to a double STS charge as a result of the change, provided certain conditions are met.

The tax base

It is anticipated that around 300 cases will be affected by this change each year, with an estimated mean value of £2.5 million per company. These transactions are subject to the normal tax rate of 0.5% that applies to most types of share transactions.

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 a number of businesses may decide to no longer proceed with the types of changes covered by this measure.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	+5	+5	+5	+5	+5

Areas of uncertainty

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

VAT: change start date for reverse charge for building and constructions services

Measure description

This measure delays the implementation of the policy announced and scored at Autumn Budget 2017 from 1 October 2019 to 1 October 2020.

The tax base

The tax base is the yield from the measure announced at Autumn Budget 2017, which in turn derives from the tax at risk from fraud in the construction industry.

Costing

The costing is produced by estimating the change in yield of the Autumn Budget 2017 measure as a result of the change in implementation date from 1 October 2019 to 1 October 2020.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	-85	-60	+20	+15	0	0

Areas of uncertainty

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

Business Rates Retention Pilots: 2020-21 pilots in Devolution Deal areas and the Greater London Authority

Measure description

This measure continues 100% Business Rates Retention for devolution deal areas (Cornwall, Greater Manchester, Liverpool City Region, West of England and West Midlands), and 67% business rate retention for the Greater London Authority, in 2020/21.

The cost base

The cost base is derived from local authorities' business rates forecast data (national non-domestic rates (NNDR1) forecast data) and 2020-21 DEL grant as in the local government finance settlement.

Costing

The static costing is estimated by applying the changes to the LASFE forecast as result of LAs benefiting from an increased share of business rates income, net of any changes to grant funding from Departmental Expenditure Limits (DEL) budgets.

The costing accounts for a behavioural response whereby it is assumed the LA add 75% of the additional income retained from the pilot scheme into their reserves.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-150	+45	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the behavioural response of local authorities, and the cost base. The costing is based on the current forecast of business rates revenues. Outturn data will reflect the actual business rates that were collected by LAs.

Negative Revenue Support Grant: eliminate in 2020-21

Measure description

This measure eliminates the negative Revenue Support Grant (RSG) for 2020-21. This was announced at the 2020-21 Local Government Finance Settlement. This measure will be effective from April 2020.

The cost base

The cost base is derived from the Local Authority Self-Financed Expenditure (LASFE) forecast.

Costing

The static costing is calculated by reversing the reduction in the business rates tariffs/top-ups of LAs affected.

The costing accounts for a behavioural response whereby it is assumed LAs add 75% of the gain from the elimination of negative RSG to their reserves.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-65	0	0	0	0

Areas of uncertainty

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

Welfare: restrict EEA migrants' access to non-contributory benefits for first five years in UK from January 2021

Measure description

This measure aligns EEA migrants' access to non-contributory benefits with non-EEA nationals. EEA migrants arriving in the UK under the new immigration system, from January 2021, will not be able to access benefits until they have been granted indefinite leave to remain, typically after five years' permanent residence.

The cost base

The cost base consists of administrative data for DWP and HMRC benefit claims. The average benefit amount received is uprated in line with the OBR's forecast for CPI inflation.

Costing

The costing is estimated by matching the ONS Migrant Worker Scan with administrative data to estimate the proportion of in-scope EEA migrants who would otherwise have made a benefit claim per month. The costing does not assume behavioural impacts.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	neg	+5	+25	+50	+80

Areas of uncertainty

The main uncertainties in this costing relate to future migration flow.

Child Benefit and Child Tax Credits: end exporting for children outside the UK from January 2021

Measure description

This measure stops the export of Child Benefit payments made in respect of children living overseas. This policy will apply to EEA nationals arriving in the UK under the new immigration system, from January 2021.

The cost base

The cost base consists of the number of new Child Benefit export claims in 2018/19.

Costing

The costing is estimated by applying an estimate for the fall in new claims to the cost base described above. The costing assumes no behavioural impacts.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	neg	neg	neg	+5	+5

Areas of uncertainty

The main uncertainties in this costing relate to future migration flow.

Universal Credit: delaying surplus earnings threshold reduction by one year

Measure description

This measure maintains the surplus earnings threshold in Universal Credit (UC), the level at which a claimant's earnings above their UC nil award are taken into account for future UC payments, at £2,500 until April 2021. This threshold was previously due to reduce to £300 in April 2020.

The cost base

The cost base is estimated using the Department for Work and Pensions (DWP) Integrated Forecasting Model and Policy Simulation Model.

Costing

The costing is estimated by calculating the difference between the relevant pre and post-measure forecasts, with fluctuations in claimant income calculated using UC Full Service administrative data. No behavioural responses have been included.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-75	0	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to distinguishing between those claimants who are seen to be paid twice because their earnings payment dates fall within the same assessment period (and therefore are not in scope of this policy) and those who experience a genuine spike in earnings.

Universal Credit: additional support for claimants transferring to pension credit

Measure description

This measure allows for Universal Credit to be paid until the end of the Assessment Period in which households reach the qualifying age for Pension Credit and pensioner Housing Benefit, with the payment not being recovered, ensuring there is no gap in benefit entitlement.

The cost base

The cost base is estimated using the Department for Work and Pensions (DWP) Integrated Forecasting Model and Policy Simulation Model.

Costing

The costing is estimated by calculating the difference between the relevant pre and post-measure forecasts, with exits by pension benefit combination type split by legacy benefit equivalent using forecasts of Universal Credit exits for ages 65+. No behavioural responses have been included.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	0	-5	-10	-10	-15	-25

Areas of uncertainty

The main uncertainties in this costing relate to estimating the volume split by benefit combination in pension age and the average award claimants receive in the month that they reach State Pension age.

Universal Credit: changes to severe disability premium regulations

Measure description

This measure increases the rates of transitional payments to claimants who received the Severe Disability Premium (SDP) on the legacy benefit system. The Department for Work and Pensions (DWP) began implementing this measure, including backdated payments, in July 2019. This measure also removes the pause on SDP claimants' natural migration to Universal Credit if they have a change of circumstance. This will take effect in January 2021.

The cost base

The cost base is estimated using the Department for Work and Pensions (DWP) Integrated Forecasting Model, Policy Simulation Model, Employment and Support Allowance (ESA) payment data, and Universal Credit administration data.

Costing

The cost of the measure is calculated from the impact of the policy change on different groups of claimants – those who had migrated to Universal Credit before the pause was introduced, those whose migration has been paused, and those who will naturally migrate to Universal Credit after the pause is removed. Additional caseloads are added from an operational scan of Universal Credit claimants. The costing assumes there is no behavioural impact.

Exchequer impact (£million)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Exchequer impact	-10	-5	-5	neg	neg	0

Areas of uncertainty

The main uncertainties relate to the methodology used to model the flow of SDP claimants.

Annex A

Indexation in the public finance forecast baseline

The following table shows the indexation assumptions that have been included in the public finances forecast baseline, including all pre-announcements, for Budget 2020 policy costings. This does not include the changes made at Budget 2020.

Forecast area	Element	Default indexation assumed in the baseline	Previously announced policy changes from 2020-21 onwards
Income Tax	Personal Allowance	Increase by CPI, rounded up to the nearest £10	Maintained at £12,500 in 2020-21
	Basic Rate Limit	Increase the by CPI, rounded to the nearest £100	Maintained at £37,500 in 2020-21, to maintain the Higher Rate Threshold at £50,000.
	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	Threshold income: Fixed at £110,000 Adjusted income: fixed at £150,000	
	Pensions Tax relief – Money Purchase Annual Allowance	Fixed at £4,000	
	Pensions Tax Relief – Lifetime Allowance	September's CPI, rounded up to the nearest £100	
	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,	

		rounded up to the nearest £10	
NICS	Lower earnings limit	CPI, rounded down to the nearest £1pw	
	Primary threshold / lower profits limit	CPI, 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 profit limit	Aligned with Income Tax Higher Rate Threshold	
	Small profits threshold	CPI, rounded up to the nearest £10	
	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 up 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 up to and including 2020-21 (freeze at £325,000)
	Residence nil rate band	CPI, rounded to the nearest £1,000	Increase in the residence nil rate band to £175,000 in 2020-21
Working-age social security benefits and payments: Jobseeker's Allowance; Income Support; Employment and Support Allowance; Housing Benefit	All main rates	September's CPI	
Universal credit	All main rates	September's CPI	
Disability Benefits: Disability Living Allowance; Attendance Allowance; Carer's	All main rates	September's CPI	

Allowance; Incapacity Benefit; and ESA support group element and its UC equivalent			
Statutory payments: Statutory Maternity Pay; Adoption Pay; Paternity Pay; Shared Parental Pay; Sick Pay; Maternity Allowance; and Guardian's Allowance	All main rates	September's CPI	
Basic State Pensions	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 growth rounded to the nearest 5p	
	Savings Credit	September's CPI rounded to the nearest 1p	
Child Tax Credit	Family element	Fixed at £545 per year	
	Child element	September's CPI, rounded to the nearest £5	
	Disabled and enhanced disabled child elements	September's CPI, rounded to the nearest £5	
Working Tax Credit	Basic element, 30-hour element, second adult elements, lone parent element	September's CPI, rounded to the nearest £5	
	Disability elements	September's CPI, rounded to the nearest £5	

	Maximum eligible childcare costs (for 1and 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	
Stamp duties	Stamp duty land tax thresholds for residential property (including lease premium)	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 residential transactions Net Present Value	Fixed at £125,000	
	Stamp duty land tax thresholds for non-residential Net Present Value of rent.	Fixed at £150,000 and £5,000,000	
Annual tax on enveloped dwellings	Annual chargeable amount	CPI	
Climate change levy	Levy amount	RPI	CCL main rates for gas are set at £0.00406/kWh for 2020-21 and £0.00465/kWh for 2021-22. Electricity rates are set at £0.00811/kWh for 2020-21 and 0.00775/kWh for 2021-22. The freeze of LPG was continued. Any other taxable commodity rates are set at £0.03175 per kg for 2020-21 and £0.03640per kg for 2021-22.
Aggregates 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	
Alcohol duties	Beer, wine, spirits and cider duties	RPI, change normally takes place on 1 February	
Fuel duties	Duty rates	RPI	
VAT	VAT registration threshold	RPI, rounded to the nearest £1,000	Fixed at £85,000 up to and including 21-22
Gaming duty	Gross gaming yield bands	RPI, rounded to the nearest £500	
Business rates	Business rates multiplier	CPI	
Soft drinks industry levy	Levy amount	Fixed at 18ppl on sugar content 5-8g per 100ml, 24ppl on sugar content >8g per 100ml	

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