HM Treasury

Policy costings: November 2020

November 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 Budget 2020, 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. 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 alongside the forecast. 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.

Chapter 2
Policy costings

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Local authorities: reserves implications of Council Tax referendum principles

Measure description

This measure sets the Council Tax referendum limits for 2021-22. These consist of a core referendum principle of 2%, a 3% Adult Social Care (ASC) precept, and a £15 Police and Crime Commissioner (PCC) precept.

The three referendum principles set are:

- 2% core Council Tax principle for non-social care authorities.
- 3% ASC precept, which sits on top of the 2% core council tax principle. This is available to local authorities (LAs) with social care responsibilities. These authorities can increase their council tax by a total of 5%. Money raised through the ASC precept is ringfenced for to ASC spending.
- £15 PCC principle allowing police authorities to increase their council tax by £15.

LAs with an ASC precept can defer up to 3% of their council tax rise to the following year.

The cost base

The cost base is the net Exchequer impact of two, largely offsetting, effects:

- the change in Council Tax receipts as a result of the application of the referendum principles.
- the consequent change in LA self-financed expenditure.

Costing

The costing is estimated by comparing the pre- and post-measures regimes, including an assumption on LA take-up of the new principles.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	0	+15	+20	+20	+20	+20

Areas of uncertainty

The main uncertainties relate to local decisions by LAs on the level of Council Tax.

Local authority tax collection deficits: reserves impact of grant funding

Measure description

This measure provides grant funding to compensate LAs for 75% of their tax collection deficit, as agreed as part of the Local Government Spending Settlement at Spending Review 2020. LAs have also been given special dispensation to spread this deficit over the next 3 years.

The cost base

The cost base is the amount of local tax LAs forecast they will collect in advance, and then spend in-year based on this forecasted amount. If they collect less tax than their forecasted amount, they would normally have to repay that deficit in the following financial year.

The costing is derived from the Local Authority Self-Financed Expenditure (LASFE) forecast. This is a spending forecast which itself is derived from forecasts of local tax and other LA income. The Council Tax forecast is based on Council Tax bills, the number of households and the number of council tax discounts. The business rates forecast is based on the number of commercial properties and the business rates multiplier.

Costing

The costing is based on the reduction in the business rates and Council Tax forecasts against LA budgets set at the start of the year.

The forecast collection deficit is £1,016m. 75% of this is compensated by grant funding to LAs. Therefore, the DEL cost of this measures is £762m. This DEL funding is included within the total resource DEL funding for COVID-19. The cost shown here is therefore the impact of the DEL grant on LASFE, via their use of reserves. As LAs have been assumed to use their reserves to fund any collection deficit not met by grant their use of reserves falls by the same amount in total (£762m) but spread over 3 years.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	0	+255	+255	+255	0	0

Areas of uncertainty

The size of the eventual collection deficits are uncertain. Total compensation will depend on outturn from LAs once the financial year has closed.

Business rates: continuation of retention pilots in 2021-22

Measure description

In 2017-18, the government set up 100% Business Rates Retention (BRR) pilots in Cornwall, Greater Manchester, Liverpool City Region, the West of England and the West Midlands as part of devolution deals. The Greater London Authority (GLA) also piloted 67% BRR. These pilots allow increased BRR compared to other areas' existing 50% retention. The devolution deals pilots continued to 2020-21.

These pilots will be extended into 2021-22.

The cost base

The cost base is the business rates forecast and the expected grant allocation to LAs. It is assumed in the baseline that authorities with pilot arrangements reverted to the 50% business rates retention scheme from the end of 2020-21.

Costing

As a result of the increased business rates retention arrangements authorities will retain more business rates and therefore spend more financed by locally generated revenues (AME). This is largely offset by a reduction in central government grant to LAs, and so spending financed by grant income (DEL).

Pilot authorities will gain from any business rates income retained above their business rates baseline due to growth in their business rates base. They will also be eligible for more S31 grant.

It is assumed that 75% of additional income received by authorities with increased business rates retention arrangements is placed into reserves at the end of the one-year extension in 2021-22.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	0	-155	+50	0	0	0

Areas of uncertainty

The business rates forecast and growth in the business rates base are uncertain.

Business rates: freeze multiplier for one year

Measure description

This measure will freeze the business rates multiplier for 12 months from April 2021. This will maintain the small business multiplier at 49.9p and the standard multiplier at 51.2p rather than uprating them by Consumer Price Index (CPI) to 50.1p and 50.4p respectively.

The tax base

The tax base consists of the total rateable value of all non-domestic properties in England, multiplied by the 2021-22 business rates multipliers.

Costing

The static costing is produced by applying the pre- and post-measures tax regime to the tax base above. The static cost is adjusted to reflect the fact that business rates are deductible for Corporation Tax for companies and Income Tax for the self-employed, and that business rates are devolved to Scotland, Wales and Northern Ireland. The costing includes no adjustments for behavioural effects.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	+5	-125	-120	-120	-120	-120

Areas of uncertainty

The main uncertainties in this costing relate to the rate of future inflation.

Public Works Loan Board (PWLB): lending terms reform

Measure description

This measure will amend the lending terms for the PWLB to prevent Local Authorities (LAs) from using PWLB loans to buy investment assets primarily for yield. LAs must provide the Government with a high-level summary of their capital plans for the next three years and confirm when applying to borrow that their plans are accurate and they are not planning to buy investment assets primarily for yield in these years, whether financed through PWLB loans or not. If they do not make these declarations, they cannot borrow from the PWLB.

The cost base

This measure affects local authorities in England, Scotland, and Wales. All forecast borrowing in scope of this measure is England only.

Costing

The costing reflects the change in LA self-financed expenditure arising from the application of the amended PWLB lending terms.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	0	0	+50	+95	+145	+190

Areas of uncertainty

The main uncertainty in this costing relates to LAs' future decisions on spending.

Public Works Loan Board (PWLB): cut interest margin by 100 basis points

Measure description

This measure reduces the interest rates for Standard Rate and Certainty Rate PWLB loans by 100 basis points (bps) on 26 November 2020.

The base

This measure will affect the interest rates available to local authorities in England, Scotland and Wales.

Costing

The costing estimates the impact on LA self-financed expenditure from a reduction in interest payments to the PWLB, and accounts for a behavioural response whereby LAs increase their capital expenditure and reduce borrowing from private lenders.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-20	-135	-170	-200	-230	-255

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.

Coronavirus Job Retention Scheme: March to October 2020

Measure description

The Coronavirus Job Retention Scheme (CJRS) aims to mitigate the impact of COVID-19 on the economy by supporting employers to retain their employees.

Between March and August, the scheme paid employers 80% of an employee’s wages (up to a cap of £2,500 per month) for employees who were furloughed. The scheme also funded Employer National Insurance Contributions and minimum automatic enrolment employer pension contributions on that wage between March and July 2020. From September, the percentage of salary covered by CJRS fell from 80% to 70%, and the cap fell from £2,500 per month to £2,187.50. From October, the percentage of salary covered by CJRS fell from 70% to 60%, and the cap fell from £2,187.50 per month to £1,875.

Prior to July, an employee on CJRS could not work in the job from which they had been furloughed. From July onwards, an employee could be flexibly furloughed, meaning they could work for a percentage of their normal hours, with the CJRS covering wages for furloughed hours only.

Costs are shown to the end of October, with the extension through to March 2021 addressed separately.

The cost base

The number of employments furloughed per month and average monthly claim for furloughed employments is projected in line with prior CJRS claims data.

Costing

For the March to June period, the costing is based on final CJRS outturn data.

For the period from July onwards, the costing is estimated by taking the product of the projected number of employments furloughed per month and average monthly claim, based on incomplete outturn data. Adjustments are made for estimated tax receipts on salary payments supported by the CJRS, repayments of CJRS payments and compliance activity. The costing reflects HMRC’s Coronavirus Job Retention Scheme statistics that have already been published.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-34,080	-10	0	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the number of employments furloughed per month, average claim amount and income tax and National Insurance payments on salary payments supported by the CJRS.

Coronavirus Job Retention Scheme: extension to March 2021

Measure description

The extension to the Coronavirus Job Retention Scheme (CJRS) will operate between November 2020 and March 2021.

Up to 31 January, the government will pay 80% of wages up to a cap of £2,500 per month for any non-worked hours, and employers will be responsible for the employer National Insurance Contributions (NICs) and pension contributions only on non-worked hours. An employee can be flexibly furloughed, meaning they can work for a percentage of their normal hours, with the CJRS covering 80% of wages for furloughed hours only. Further details are available in the Extension of the Coronavirus Job Retention Scheme policy paper published on 5 November 2020.

The government will review the scheme in January 2021. This costing assumes the parameters of the scheme remain as currently announced beyond January 2021.

The cost base

The number of employments furloughed per month is projected in line with the OBR's economic forecast. Outturn CJRS claims data is used to estimate the average monthly claim amounts for furloughed employments.

Costing

The costing is estimated by taking the product of the estimated number of employments furloughed per month and average monthly claim. Adjustments are made for estimated tax receipts on salary payments supported by the CJRS, repayments of CJRS payments and compliance activity. The costing reflects HMRC's Coronavirus Job Retention Scheme statistics that have already been published.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-19,640	0	0	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the number of employments furloughed per month, average claim amount and income tax and National Insurance payments on salary payments supported by the CJRS.

Self-Employed Income Support Scheme (SEISS): first and second grants

Measure description

This scheme allows eligible self-employed people (including those in partnerships) to claim up to two taxable grants.

The first grant is calculated at 80% of 3 months' average monthly trading profits, paid out in a single instalment and capped at £7,500 in total.

The second grant is calculated at 70% of 3 months' average monthly trading profits, paid out in a single instalment and capped at £6,570 in total.

The cost base

The cost base is up to the total population who have income or losses from self-employment, including those who have trading profits and/or income from partnerships.

The cost base has been calculated using outturn Self-Assessment data. The scheme considers Self-Assessment tax returns filed on or before 23 April 2020.

Costing

The policy uses a backwards-looking definition of eligibility, and the majority of outturn information is now held on the amounts claimed. The data suggest that take-up for SEISS 2 was around 90% of that of SEISS 1. Claims figures have been published as part of HMRC's COVID-19 statistics.

An increase in Income Tax and self-employed National Insurance is accounted for in the costing.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-12,730	+1,635	0	0	0	0

Areas of uncertainty

As outturn data on claims is now held, the residual source of uncertainty is around the amount of Income Tax and self-employed National Insurance arising from these grants.

Self-Employed Income Support Scheme (SEISS): third grant

Measure description

This scheme allows eligible self-employed (including those in partnerships) to claim a taxable grant covering November 2020 to January 2021 calculated at 80% of 3 months' average monthly trading profits, paid out in a single instalment and capped at £7,500 in total.

The cost base

The cost base is up to the total population who have income or losses from self-employment, including those who have trading profits and/or income from partnerships.

The tax base has been calculated using outturn Self-Assessment data. The scheme considers Self-Assessment tax returns filed on or before 23 April 2020.

Costing

The policy uses a backwards looking definition of eligibility.

The key behavioural consideration is around take-up – i.e. how many of the eligible population will claim their grants. Outturn data on take-up for the first two SEISS grants are taken into account to estimate take-up for this third grant.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-6,875	+885	0	0	0	0

Areas of uncertainty

The main source of uncertainty relates to take-up.

VAT: temporary reduced rate for hospitality and tourism sectors until 31 March 2021

Measure description

This measure applies a temporary 5% reduced rate of VAT to certain supplies relating to hospitality, hotel and holiday accommodation, and admissions to certain attractions. The reduced rate will apply to supplies that are made between 15 July 2020 and 31 March 2021.

The tax base

The tax base is estimated using VAT return data for 2018-19 and the ONS Annual Business Survey 2018 for the relevant sectors. This historical tax base is then adjusted for the estimated impacts of COVID-19 on these sectors during the period of the measure.

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 the following behavioural responses: variable pass through of the rate reduction to customers, and estimated price elasticity of demand.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-2,540	0	0	0	0	0

Areas of uncertainty

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

Eat Out to Help Out

Measure description

This measure provided a government-funded 50% discount on food or non-alcoholic drinks to eat or drink in (up to a maximum of £10 discount per diner, per meal) every Monday, Tuesday and Wednesday between 3 and 31 August 2020.

Costing

The costing of this measure is based on outturn data on payments for claims by participating businesses. HMRC's COVID-19 statistics collection includes data about the Eat Out to Help Out scheme.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-840	0	0	0	0	0

Areas of uncertainty

There are no uncertainties associated with this costing.

Stamp Duty Land Tax: increase nil-rate band threshold to £500k until 31 March 2021

Measure description

This measure increases the nil-rate thresholds for residential Stamp Duty Land Tax (SDLT) from £125,000 to £500,000 from 8 July 2020 until 31 March 2021.

The tax base

The tax base was derived using the SDLT microsimulation model with a base year period of 2019-20. The transactions are then grown in line with the latest 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 behavioural assumptions, including changes in transaction volumes and house prices due to the tax cut, forestalling, and the impacts on Inheritance Tax and Capital Gains Tax.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-2,295	-1040	+5	neg	+5	neg

Areas of uncertainty

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

Universal Credit and Working Tax Credit: increase standard allowance and basic element by £20 in 2020-21

Measure description

This measure increases the 2020-21 Universal Credit (UC) standard allowance and Working Tax Credit (WTC) basic element by the equivalent of £20 per week.

In addition, this measure increases the Housing Benefit (HB) Additional Earnings Disregard by £20 per week so that HB claimants do not see a reduction in their awards.

This measure is effective from 6 April 2020 until 5 April 2021.

The cost base

UC caseloads and average awards are estimated using DWP's Policy Simulation Model and Integrated Forecasting Model 2, for WTC this is estimated using HMRC's Tax Credits Expenditure Rundown Model, and for HB claimants DWP's Single Housing Benefit Extract is used. All caseload models are aligned to the latest caseload forecasts and include those made eligible for an award as a result of the increase.

Costing

The UC and WTC cost is the difference between the pre-measure expenditure and the post-measure expenditure from the relevant models. There are consequential impacts relating to WTC payments in future years, and a small additional cost in 2020-21 from HB claimants who receive the Additional Earnings Disregard increase but not the WTC increase.

No further behavioural effects have been included.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-6,060	-10	+5	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the size of the UC and WTC caseloads.

Universal Credit: suspend the Minimum Income Floor for self-employed claimants

Measure description

The Minimum Income Floor (MIF) is an assumed minimum level of earnings for self-employed UC claimants, and is set at the equivalent of the hours a claimant would be expected to work (typically 35 hours per week) at the National Living Wage for their age group. If a claimant's monthly earnings are below the level of the MIF, their monthly UC award will be calculated using the MIF. If their earnings are above the MIF, their UC award will be calculated using their actual earnings.

The government has suspended the MIF from the start of April 2020 to end of April 2021, meaning claimants' actual earnings are used to calculate their awards.

The cost base

DWP's Policy Simulation Model is used to estimate average awards, and UC administrative data is used to estimate the caseload.

Costing

The costing is produced by comparing the pre- and post-measures regimes.

There is a cost beyond April 2021 as new claimants benefit from a 12-month grace period before the MIF is applied. The grace period has been extended alongside the MIF suspension.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-350	-255	-210	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the number of new self-employed UC claimants and the distribution of self-employment earnings over time.

Local Housing Allowance (LHA): increase rates to the 30th percentile in 2020-21 and maintain in cash terms thereafter

Measure description

LHA is housing support available to those in the Private Rental Sector. On 20 March, LHA rates in 2020/21 were raised to the lowest 30th percentile of local market rents. LHA rates will be maintained at this higher level in cash terms in 2021/22. The government's default policy assumption is that they remain at this level thereafter, but this will be reviewed annually.

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 applying the baseline and post-measure LHA rates to the cost base described above.

It accounts for a behavioural response from landlords and claimants.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-955	-960	-840	-675	-520	-345

Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response from claimants and landlords and the future caseload.

Pension Credit: uprate the Standard Minimum Guarantee

Measure description

This measure ensures that the cash increase in the Standard Minimum Guarantee (SMG) element of Pension Credit is uprated by 1.9% in 2021-22. For single individuals on pension credit this is an increase of £3.35 per week and for couples on pension credit this is an increase of £5.10 per week.

This measure will be effective from April 2021.

The cost base

The cost base is estimated using the Pension Credit forecast

Costing

The costing is calculated by estimating the costs of uprating the SMG in 2021-22 by £3.35 per week (1.9%) compared to the forecast baseline and applying the difference.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	0	-340	-355	-355	-370	-380

Areas of uncertainty

The main uncertainties in this costing relate to Pension Credit and Housing Benefit caseload forecast in future years.

Employment Support Allowance: remove seven day wait

Measure description

This measure reflects changes to eligibility for Employment Support Allowance (ESA) for claimants affected by COVID-19. Since 13 March 2020, individuals have been able to apply for ESA if they are incapable of work because they are required to self-isolate due to COVID-19 or because they are caring for a child who is infected or self-isolating. The unpaid seven waiting days at the start of a claim have been removed for COVID-19 related cases.

The measure was announced at Budget 2020 but is being scored at this event.

The cost base

The pre-measure base is the ESA expenditure from Spring Budget 2020.

Costing

The costing is calculated by applying the pre- and post-measure caseload estimates described above. This costing uses ESA claim data, government guidance and operational processes to estimate and forecast the temporary increases in the ESA caseload.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-5	neg	0	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to future COVID-19 incidence rates, uptake of the changes and how long claims may last due to possible future changes in COVID-19 guidance.

Breathing Space: legal protections from creditor enforcement action, interest, fees and charges

Measure description

Individuals in problem debt who enter Breathing Space will be given legal protections from most creditor enforcement action, interest, fees and charges for up to 60 days while they receive debt advice and enter an appropriate debt solution or plan.

This measure will be effective from 4 May 2021.

The cost base

The cost base is the tax and welfare debts of individuals that enter the scheme. This is calculated using availability of debt advice supply and an estimate of population that will be eligible for the scheme

Costing

The costing is estimated by accounting for the delay in revenue associated with the 60-day pause in collecting debts that would have otherwise been collected through enforcement action during this period.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	0	-85	-10	-5	-5	-5

Areas of uncertainty

The main uncertainty in this costing relates to the take-up.

Business rates: 12-month full business rates holiday for eligible properties in the retail, hospitality, leisure and nursery sectors

Measure description

This measure grants a 100% business rates discount to businesses occupying eligible retail, hospitality, and leisure properties and nurseries in England for 12 months from April 2020.

The tax base

The tax base consists of the total rateable value of all retail, hospitality and leisure properties and nurseries in England, multiplied by the 2020-21 business rates multipliers.

Costing

The 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 (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-11,830	+220	-5	0	0	0

Areas of uncertainty

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

Statutory Sick Pay: rebate for small and medium enterprises

Measure description

This measure allows small and medium-sized employers to reclaim Statutory Sick Pay (SSP) paid for staff sickness absence due to COVID-19. This refund covers up to 2 weeks' SSP per eligible employee who has been off work because they have been ill with COVID-19 or have had to self-isolate or shield because of it.

The cost base

Since the Government did not rebate any SSP immediately before the introduction of the rebate, this measure has no cost base.

Costing

This costing was estimated by taking outturn data on the rebate to date and projecting it forward until the end of the financial year.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-50	0	0	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to take-up.

VAT: Deferral

Measure description

This measure allowed for VAT payments (other than import VAT) due between 20 March and 30 June 2020 to be deferred until 31 March 2021.

The tax base

The tax base is the value of payments eligible for deferral. This is derived by forecasting the value of VAT payments between 20 March and 30 June 2020 before deferral, allowing for COVID-19 impacts on underlying liabilities.

Costing

The costing first estimates the amount of VAT deferred under the scheme. This is calculated as the difference between actual and expected payments. This is then confirmed with evidence from VAT return data covering the deferral period.

The Exchequer impact is then estimated as the proportion of these deferred receipts which will not ultimately be recovered as a result of the policy. It does not include the effect on the timing of cash receipts, as this does not affect Public Sector Net Borrowing.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-1,470	0	0	0	0	0

Areas of uncertainty

The main uncertainties in these costings relate to the lack of available data at present to estimate non-recoveries.

VAT: New Payment Scheme

Measure description

This measure allows deferred VAT payments to be paid in up to 11 equal instalments with the first payment made at the date the customer sign up to the scheme, which is before 31 March 2021.

The tax base

The tax base consists of the VAT payments deferred between 20 March and 30 June 2020 as part of the VAT Deferral measure.

Costing

The costing for the VAT New Payment Scheme is produced by estimating the change in non-recoveries of deferred VAT as a result of the availability of the New Payment Scheme. It does not include the effect on the timing of cash receipts, as this does not affect Public Sector Net Borrowing

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-440	-30	0	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the lack of available data at present to estimate non-recoveries, and the projected take-up of the VAT New Payment Scheme and the proportion of VAT liabilities that will not be recovered.

Import VAT and customs duty: relief for goods to tackle COVID-19 until 31 December

Measure description

This measure removes Customs Duty and import VAT on imports of specified medical supplies, equipment and protective garments by public or charitable organisations from non-EU countries, for the period 30 January to 31 December 2020.

The cost base

The cost base is the value of imports of goods declared under Customs Procedure Code 4000C26, which relates to the imports qualifying for relief according to this measure.

Costing

The duty and tax relieved are estimated using outturn data from CHIEF (Customs Handling of Import and Export Freight) up to the end of October 2020, projected over the remaining period of the measure.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-1,090	0	0	0	0	0

Areas of uncertainty

The main uncertainty in this costing relates to the value of imports in the remaining period of the measure after the available outturn data.

VAT: temporary zero rate for personal protective equipment

Measure description

This measure applied a temporary VAT zero rate from 1 May to 31 October 2020 on the supply of Personal Protective Equipment (PPE), recommended for use in connection with protection from infection with COVID-19 in guidance published by Public Health England on 24 April 2020.

The tax base

The tax base consists of all qualifying PPE equipment supplied in the period 1 May 2020 to 31 October 2020. This was estimated using data on non-EU imports of the relevant commodities up to October from CHIEF (Customs Handling of Import and Export Freight), and data on EU imports of these commodities up to September from HMRC UK Trade Info, extrapolating from these sources to the total value of qualifying PPE supplied.

Costing

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

There is no behavioural impact associated with this measure.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-960	0	0	0	0	0

Areas of uncertainty

The main uncertainty in this costing relates to the value of PPE supplies manufactured domestically during the period of the zero rate.

VAT on e-publications: bring forward implementation date to 1 May 2020

Measure description

This measure brought forward the implementation of the Zero Rate of VAT on supplies of certain e-publications by 7 months from 1 December 2020 to 1 May. The reduction is from the standard rate and was originally announced at Budget 2020.

The tax base

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

Costing

The cost is estimated by applying the pre-and post-measure tax regimes to the tax base described above for the additional 7 month period.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-95	0	0	0	0	0

Areas of uncertainty

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

VAT: construction sector reverse charge: further delay of implementation to 1 March 2021

Measure description

This measure, announced on 5 June 2020, further delays implementation of the policy announced at Autumn Budget 2017 by 5 months to 1 March 2021. It follows a previous delay from 1 October 2019 to 1 October 2020 as confirmed at Budget 2020.

The reverse charge makes business customers of construction services liable to account for the VAT, rather than suppliers, thereby removing scope for fraud.

The tax base

The tax base consists of the yield from the planned measure, which in turn derives from 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 further change in the implementation date from 1 October 2020 to 1 March 2021.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-55	+10	+5	neg	0	0

Areas of uncertainty

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

Income Tax Self-Assessment: Deferral

Measure description

This measure allows payments due by the July 2020 Payment on Account (POA) deadline to be deferred until January 2021.

The tax base

The tax base is Self-Assessment liabilities; and specifically, those payments due by the July 2020 Payment on Account deadline.

Costing

The costing is derived by estimating the value of Self-Assessment POAs due in July 2020, and taking the difference between actual and expected payments of the amount deferred. An assumption is made on the proportion of deferrals that will not be recovered, which is then applied to the value of deferred payments estimated prior.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-2,615	+1,660	+405	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the amount of SA liabilities that will not be repaid and the take-up rate of Time to Pay arrangements.

Income Tax Self-Assessment: Enhanced Time to Pay

Measure description

This measure will mean that from 1 October 2020, the eligibility criteria for Self-Serve Time to Pay (TTP) arrangements will be extended to allow taxpayers with outstanding Self-Assessment (SA) tax bills of up to £30k (previously £10k) to arrange a TTP of up to 12 months online. The use of Self-Serve TTP arrangements will be actively promoted to SA customers.

The tax base

The tax base for the SA Self-Serve TTP is SA tax liabilities due in the 2020-21 tax year

Costing

The static costing is estimated by looking at cash impacts across SA and non-SA liabilities due, and factoring in assumptions for non-payment to calculate expected losses.

There are no behavioural impacts associated with the measure.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-4,630	+5,195	-730	0	0	0

Areas of uncertainty

The main uncertainties in this costing relate to the amount of SA liabilities that will not be repaid and the take-up rate of TTP arrangements.

Heavy Goods Vehicle (HGV) Road User Levy: suspend for 12 months from August 2020

Measure description

This measure suspends the HGV Road User Levy for 12 months from 1 August 2020 to 31 July 2021 and applies to registered keepers of heavy goods vehicles (HGVs), registered in the UK, and drivers and owners/operators of HGVs from outside the UK accessing the UK road network.

The tax base

The UK tax base for the policy is the stock of UK vehicles liable for the HGV Road User Levy, grown in line with OBR forecast determinants.

The tax base for non-UK registered HGVs is not based on stock numbers. Instead, it is based on the number of Levy payments made by visiting HGVs according to data provided by the Driver and Vehicle Licensing Agency.

Costing

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

The behavioural impact for this measure is assumed to be negligible.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-135	-70	0	0	0	0

Areas of uncertainty

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

Off-Payroll reform: delay extension of the reform to the private and voluntary sectors by one year

Measure description

The off-payroll working (OPW) private and voluntary sectors reform was announced at Budget 2018 and was due to be implemented from April 2020. The government announced in March 2020 that the reform was to be delayed by 12 months as part of the government's COVID-19 economic response package. The rules will now come into effect on 6 April 2021. This note covers the cost of delay to April 2021.

The reform is an extension of the changes made in April 2017 to the off-payroll working rules (historically known as IR35) in the public sector. The changes shift responsibility for determining whether the rules apply – and liability for employment taxes – from individual personal service companies (PSCs) to the client organisation engaging the individual's services.

The tax base

The tax base consists of the taxable income of PSCs in scope of the off-payroll working rules, which contract with medium and large-sized organisations in the private and voluntary sectors. This is estimated using HMRC administrative data for 2018-19. The tax base is grown over the forecast period using the OBR's incorporation forecast.

Costing

The costing, which reflects the change in overall yield from the reform as a result of the delay, is the difference between the estimated increase in net tax paid, with implementation in April 2021 compared to implementation in April 2020.

The costing accounts for behavioural responses such as changes to businesses models in preparation for the reform, and attrition from taxpayers seeking to mitigate the effect of the changes.

In addition to the costing shown here, a positive impact of £115m is estimated for 2019-20.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-1,090	+405	-10	-25	-20	0

Areas of uncertainty

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

Annual Investment Allowance: extension of £1m allowance until 31 December 2021

Measure description

The Annual Investment Allowance (AIA) provides businesses with an upfront 100% tax deduction on investments up to an annual limit. This fixed cap was set permanently at £200,000 at Summer Budget 2015. At Autumn Budget 2018, a temporary increase was announced to £1 million annually from 1 January 2019 until 31 December 2020.

This measure extends the £1 million AIA limit for an additional year, until 31 December 2021.

The tax base

The tax base is qualifying expenditure in excess of the baseline AIA limit of £200,000.

Costing

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

The costing is produced using the OBR's final post-measures forecast determinants for business investment.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-120	-395	-80	+110	+60	+50

Areas of uncertainty

The main uncertainty in this costing relate to the future profile of business investment.

Notification of uncertain tax treatment: delay of one year to April 2022

Measure description

This measure delays the implementation of the Legal Interpretation policy announced at Budget 2020 by one year to April 2022. This policy will introduce a requirement for large businesses to notify HMRC where they have included an uncertain tax treatment in a return.

The tax base

The tax base is the yield expected from the measure announced at Budget 2020, in turn derived from the Legal Interpretation tax gap for Large Businesses. This was sourced from the Measuring Tax Gaps publication 2020 edition, with figures projected forward across the forecast.

Costing

The static costing is estimated by calculating the yield lost due to the delay.

The costing revises down the behavioural assumption for 2021-22 as a result of businesses having prior knowledge of the policy.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	neg	-15	-25	-5	neg	neg

Areas of uncertainty

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

Tobacco duty rates: RPI+2% on all categories plus additional 4% (RPI+6%) Hand Rolling Tobacco (HRT) increase

Measure description

Tobacco duty rates are subject to RPI+2% uprating at each Budget until the end of the current Parliament.

This measure introduces an additional 4% on Hand Rolling Tobacco (HRT), generating a net uprating of RPI+6%; and an additional 2% on the Minimum Excise Tax (MET), generating a net uprating of RPI+4%, both in 2020-21. Both then return to the baseline RPI+2% escalator for the rest of this parliament. This measure came into effect on 16 November 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 (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-5	+5	+5	+5	+5	+5

Areas of uncertainty

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

Future of Making Tax Digital

Measure description

This measure extends Making Tax Digital (MTD) obligations to Income Tax Self-Assessment businesses and landlords with income above £10,000 from April 2023, and the existing obligations of Making Tax Digital (MTD) from VAT customers above the £85,000 threshold to VAT taxpayers with a turnover of between £0 and the VAT threshold from April 2022.

The tax base

The tax base is the VAT lost due to error and failure to take reasonable care for all businesses brought into scope, and the Income Tax and National Insurance Contributions lost due to error and failure to take reasonable care for all businesses and landlords brought into scope.

Tax gap and compliance yield data was used to estimate the tax base for small businesses.

Costing

The yield from this measure derives from taxpayers improving compliance through reduced errors, associated with an increase in the use of software to keep detailed, accurate and up to date records.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	0	0	+20	+50	+210	+400

Areas of uncertainty

The main uncertainties in this costing relate to the volatility in the tax gap and tax receipts and the volume and pace of sign-ups for the policy.

VAT Retail Export Scheme: withdraw from January 2021

Measure description

This measure will mean that visitors to Great Britain (GB) who are resident in a non-EU country will no longer be entitled to a VAT refund on goods purchased in GB and exported in their accompanied baggage within three months of the date of purchase.

The tax base

The tax base is the current estimate of how much the current scheme costs the exchequer in VAT refunds to non-EU visitors. It is estimated using VAT Retail Export Scheme form data from major airports.

Costing

The static cost (i.e. the amount currently refunded through the scheme) is estimated by projecting the tax base over the forecast.

The costing includes a behavioural response through a reduction in the number of visitors and a reduction in spending by visitors to GB. These estimates take into account that the VAT savings arising under this scheme are partly offset by the impact of administrative fees paid to the refund providers.

The reduction in spending is the more significant of the two behavioural impacts. Based on non-EU visitor spending data and other factors, we estimate this effect reduces the static cost after accounting for administrative fees.

We estimate that from the 1.2 million visitors who used the scheme in 2019 approximately 20,000 to 30,000 fewer tourists may visit GB a year because of the change in policy. We also estimate that this will cause a small reduction on Air Passenger Duty receipts.

The overall behavioural impact reduces the static yield by approximately 24%.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	+35	+195	+310	+400	+440	+460

Areas of uncertainty

The main uncertainties in this costing relate to the quantity and quality of the available data and the behavioural response to the policy.

Outbound VAT-free airport shopping: withdraw from January 2021

Measure description

This will mean that passengers travelling to a non-EU country from the UK will no longer be entitled to VAT-free sales (of non-excise goods) at airports.

The tax base

The tax base is the current estimate of VAT foregone through the sales of tax-free goods at airports using airport retail sales data.

Costing

The current baseline is tax-free sales being available to non-EU visitors to the UK at airports.

The static cost is estimated using airport retail sales data for 2019 and passenger data from the Office National Statistics (ONS). The estimate of VAT foregone if the scheme were to have continued is projected over the forecast.

The costing accounts for a behavioural response to account for a reduction in spending from non-EU bound passengers.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	+15	+85	+130	+170	+185	+195

Areas of uncertainty

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

Outbound duty-free: extension to EU bound passengers from January 2021

Measure description

This measure extends duty free sales to EU bound passengers from 11pm on 31 December 2020. This means passengers travelling from Great Britain (GB) to EU countries will no longer pay VAT and excise duty on all alcohol and tobacco goods after passport control.

This measure does not affect other types of (non-excise) goods.

The tax base

The tax base is estimated using retail sales data at GB ports, airports and international railway terminals that are currently liable for excise duty and VAT from a major duty-free and tax-free shopping provider.

Costing

The baseline for this measure is duty-free not being extended to EU bound passengers.

The static cost is estimated using industry data and passengers data from the Office for National Statistics (ONS). The costing is then projected over the forecast using OBR forecast determinants.

The costing accounts for a behavioural response based on own-price elasticities, as well as assumptions on savings passed onto retailers and a small to moderate displacement of sales (and therefore duty receipts) from the high street and shops before security controls.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-5	-85	-145	-200	-220	-235

Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base. The behavioural costing is sensitive to assumptions on the degree to which savings are passed on from retailers and to what extent duty free sales will displace duty paid sales on the high street or in shops before security controls.

Inbound personal allowances: extension to EU and increasing alcohol allowance from January 2021

Measure description

This measure will mean passengers entering Great Britain (GB) from the EU with goods for personal use will be subject to allowances for excise and non-excise goods to ensure parity with travellers arriving from non-EU countries; as well as an increase in alcohol allowances.

The tax base

The tax base is an estimate of the quantity and value of goods which GB-bound passengers from the EU are bringing into the country and declaring voluntarily or are found in the process of compliance activity. The primary data sources are 'Red Channel' receipts data from HMRC and the International Passenger Survey produced by the Office National Statistics (ONS).

Costing

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

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	neg	neg	+5	+5	+5	+5

Areas of uncertainty

The main uncertainties in this costing relate to the lack of declarations data for passengers arriving from the EU and therefore the anticipated number of declarations by passengers.

VAT parcel reforms: introduce seller and online marketplace liability for goods under £135 and remove Low Value Consignment Relief

Measure description

This measure will remove Low Value Consignment Relief (LVCR) for all non-EU imports into Great Britain (GB). Goods with a value of £15 or less will no longer be subject to VAT relief. Low Value Consignment Relief will be restricted on non-EU imports to NI.

From the end of the transition period, VAT collection will move away from the border for goods not exceeding £135 and sold to customers in the UK. The direct seller or online marketplace, where they facilitate the sale, will instead become liable for UK VAT. This will affect goods sold by overseas sellers as well as some overseas goods sold by UK sellers. It will also affect goods of any value stored in the UK that are sold by overseas sellers through online marketplaces.

The tax base

The tax base consists of imports (i.e. from non-EU) valued at £15 or less that are not currently being charged import VAT, and the estimated value of UK VAT losses from overseas-based sellers selling online to UK customers.

Costing

The static costing is estimated by multiplying the number of goods in scope by an estimate of the average VAT due on these goods, and estimating how much VAT is presently lost from overseas and UK sellers selling goods online, and then estimating how much of this loss is recovered by this measure.

The costing is grown over the forecast and accounts for a behavioural response where non-compliant sellers either become compliant, cease to trade, or switch to direct sales.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	+85	+360	+320	+305	+295	+280

Areas of uncertainty

The main uncertainties relate to the size of the tax base.

VAT: zero rate for certain financial services exports to the EU from January 2021

Measure description

This measure will allow input VAT recovery related to exports of certain financial services to the EU, aligning the treatment with exports to non-EU countries. The measure will come into effect on 1 January 2021.

Fund management is not covered by this measure.

The tax base

The tax base is the expenditure of businesses exporting financial services to the EU. This is estimated using ONS statistics.

Costing

The static costing is estimated using the input tax attributable to the relevant financial services supplies.

There is no behavioural impact associated with this costing, because any change in demand due to the input VAT recovery would not impact VAT receipts by definition.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-205	-855	-915	-950	-985	-1,025

Areas of uncertainty

The main uncertainty in this costing relates to the proportion of non-recoverable import VAT between domestic and EU exports.

VAT: refund scheme for museums and galleries

Measure description

This measure adds six further museums and galleries that allow free public admission to the VAT refund scheme, and four new premises for institutions already in the scheme. The measure also omits certain institutions that are no longer eligible for inclusion. The measure was effective from 17 November 2020.

The tax base

The tax base consists of VAT paid on purchases made by the museums and galleries to support free admission.

Costing

The costing is based on the projected VAT recovery as stated by applicants to the scheme in their application form which is submitted to the Department for Digital, Culture, Media and Sport.

There are no behavioural impacts associated with this costing.

Exchequer impact (£m)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Exchequer impact	-5	-20	-20	-15	-5	-5

Areas of uncertainty

The main uncertainty in this costing relates to the accuracy to which bodies have estimated their expected VAT recovery.

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