HM Government

# Autumn Statement 2016:
# policy costings

November 2016

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ISBN 978-1-911375-49-4
PU1985

# Contents

# 1 Introduction

1.1 This document sets out the assumptions and methodologies underlying costings for tax and Annually Managed Expenditure (AME) policy decisions announced since Budget 2016, where those policies have a fiscally significant impact on the public finances. These costings are all submitted to the independent Office for Budget Responsibility (OBR) for their certification. This continues the practice established at June Budget 2010 and the principles outlined in '*Tax policy making: a new approach*', published alongside June Budget 2010.This publication is part of the government's wider commitment to increased transparency.

1.2 Chapter 2 presents detailed information on the key data and assumptions underpinning the costing of policies in the Autumn Statement 2016. Each note sets out a description of the measure, the base, the methodology for the costing (including relevant adjustments for behavioural responses) and highlights any areas of additional uncertainty, beyond those inherent in the OBR's forecast. All costings are presented on a National Accounts basis.

1.3 Annex A sets out the indexation assumptions included in the public finances forecast baseline, including all pre-announcements. Annex B, written by the OBR, sets out the approach they have taken to scrutiny and certification of the costings, and highlights areas of particular uncertainty.

1.4 Stamp Duty Land Tax and Landfill Tax are already devolved to the Scottish Government. Devolution will be extended to Income Tax from non-savings and non-dividend (NSND) income from April 2017 and Air Passenger Duty in April 18. The costings produced in this document reflect the impact on UK government tax revenues only along with the associated adjustment to the Scottish Government's block grant (as set out in the Scottish Government's fiscal framework).

# 2 Policy costings

The following are included in this chapter:

- Personal Independence Payment: not implementing Budget 2016 measure
- Universal Credit: reprofile
- Disability benefits: eligibility test change
- Social Sector Rent downrating: exemptions
- Pay to Stay: do not implement
- Local Housing Allowance: adjusted roll-out and supported housing fund
- Affordable Homes Programme: tenure flexibility
- Affordable Homes Programme: additional funding
- Fuel Duty: freeze in 2017-2018
- Universal Credit: reduce taper to 63%
- NS&I Investment Bond
- Right to Buy: expand pilot
- Insurance Premium Tax: 2ppt increase from June 2017
- National Insurance Contributions: align primary and secondary thresholds
- Salary Sacrifice: remove tax and NICs advantages
- Money Purchase Annual Allowance: reduce to £4,000 per annum
- Company Car Tax: reforms to incentivise ULEV's
- VAT Flat Rate Scheme: 16.5% rate for businesses with limited costs
- Disguised Remuneration: extend to self-employed and remove company deduction
- Adapted Motor Vehicles: prevent abuse
- Employee Shareholder Status: abolish tax advantage for new schemes
- HMRC: administration and operational measures
- Offshore Tax: close loopholes and improve reporting
- Money Service Businesses: bulk data gathering
- Tax Credits: correcting rewards
- Business rates: support for broadband
- Business rates: Rural Rate Relief
- Gift Aid reform

- Museums and Galleries tax relief
- Social Investment Tax Relief: implement with £1.5m cap
- Off-payroll working: implement consultation reforms

# Personal Independent Payment: not implementing Budget 2016 measure

## Measure description

This measure was announced at Budget 2016, but the decisions was taken not to proceed with the change. The AME savings from this measure were included in the Budget 2016 forecasts, but an adjustment will be made at Autumn Statement 2016 to remove them.

## The cost base

The impact of the reversal measure has been estimated using the Budget 2016 costing for the measure, adjusted for changes in the economic determinants.

### Post-behavioural Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | -15 | -605 | -1250 | -1400 | -1390 | -1410 |

# Universal Credit: reprofile

## Measure description

The Secretary of State for the Department of Work and Pensions (DWP) made an announcement to Parliament on 20 July 2016. This included policy changes and revisions to the Universal Credit timetable.

## The cost base

The cost base is estimated using DWP's micro-simulation models (to model interactions with the affected benefits), in combination with their Integrated Forecasting Model for Universal Credit. The cost base is consistent with OBR Autumn Statement 2016 forecast determinants.

## Costing

The costing is estimated by calculating the difference between the pre- and post-measure Universal Credit marginal expenditure. There are no behavioural impacts included in the costing.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | -20 | -295 | -445 | -185 | -110 | -425 |

## Areas of uncertainty

The main level of uncertainty is around projections of Universal Credit caseload.

# Disability benefits: eligibility test change

## Measure description

This measure removes the Past Presence Test (PPT) for those granted refugee, Humanitarian Protection or Discretionary Leave[1] and their family members when applying for disability benefits. The PPT requires claimants to have been present in Great Britain for 104 out of the 156 weeks preceding a claim; the removal of this means that refugees will be eligible for disability benefits and associated disability premiums 2 years earlier than previously. This measure has been introduced due to a legal judgment made on 17 March 2016, and the Department for Work and Pensions have begun applying this to existing cases.

## The cost base

Pre-measure Child Disability Living Allowance (DLA) and Personal Independence Payments (PIP) expenditure and caseload forecasts are consistent with OBR Autumn Statement 2016 forecast determinants.

## Costing

The costing is derived by estimating refugee inflows to the UK, disability prevalence, age breakdowns, and likelihood to claim disability benefits, as well as award rates and average amounts amongst this inflow. The costs to the Exchequer are due to the fact that refugees and family members would be eligible for disability benefits two years earlier in the post-measure scenario.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | -20 | -20 | -20 | -20 | -15 | -15 |

## Areas of uncertainty

The main uncertainties in this costing relate to refugee flows, disability prevalence amongst refugees, and likelihood of disabled refugees to claim disability benefits.

[1] The note will refer to all of these groups as refugees for simplicity

# Social Sector Rent downrating: exemptions

## Measure description

It was announced at the 2015 Summer Budget that social sector rents would be reduced by 1% each year, from 2016-17 through to 2019-20. In March 2016, this was deferred for one year for supported housing, almshouses, community land trusts and fully mutual housing associations/co-operatives (co-ops).

This measure exempts almshouses, community land trusts, co-ops and refuges from the remaining three years of the policy.

## The cost base

The baseline is the 1% rent reduction with the one-year deferral.

## Costing

This policy change is costed by estimating the change in total housing benefit claim of the relevant sectors that will be exempted.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -10 | -15 | -15 | -15 |

## Areas of uncertainty

The main uncertainties in this costing relate to the assumed number of almshouse, community land trust, co-op and refuge units, and the proportion in receipt of housing benefit.

# Pay to Stay: do not implement

## Measure description

The government has decided not to implement the current design of the Pay to Stay policy, under which local authority tenants with taxable incomes over £31,000 (or £40,000 in London) would have been required to pay a market, or near market rent.

## The cost base

The cost base is estimated using data on social tenants' household incomes from the Family Resources Survey. Social rents are sourced from Department for Communities and Local Government administrative data. Market rents are estimated using Valuation Office Agency data.

## Costing

The costing is calculated by estimating the additional rental income that would have been paid by local authority tenants under the policy, take-up of the policy by housing associations, increased Right to Buy sales, and reductions in Housing Benefit expenditure.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -280 | -15 | -100 | -100 | -105 |

## Areas of uncertainty

The main uncertainties in this costing relate to the level of take-up by housing associations and the behavioural responses of tenants.

# Local Housing Allowance: adjusted roll-out and supported housing fund

## Measure description

The Spending Review and Autumn Statement 2015 announced that Housing Benefit and Universal Credit housing support awards in the social rented sector would be capped at the applicable private sector rate, referred to as the Local Housing Allowance (LHA). This was to be effective from April 2018, affecting all new and renewed tenancies from 1 April 2016. This measure scores changes to this policy already announced by the Secretary of State for Work and Pensions. It will now:

- be effective from April 2019
- for supported housing, apply to all claimants but with a top-up fund in place intended to meet the additional costs of supported housing over and above LHA rates. This top-up funding will be administered by local authorities
- for general needs housing, it will apply to Housing Benefit claimants starting or renewing tenancies after 1 April 2016, and all affected Universal Credit claimants, regardless of tenancy start date

## The cost base

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

## Costing

The costing calculates the difference in expenditure between the pre- and post-measure regimes in steady state and then adjusts this in line with the estimated build-up over time of the number of households affected by the measure. The policy changes eliminate savings in 2018-19 due to the one-year delay, but generate additional savings in subsequent years as it is applied to the stock of supported housing tenants and general needs tenants in Universal Credit from 2019-20.. The costing includes an estimate of the top-up funding in 19-20, based on the government's commitment that overall spending on supported housing in 19-20 will be the same as it would have been in the absence of the LHA cap policy, taking into account government policy on social rents. Funding for later years will be determined at future Spending Reviews and so is not included in the costing from 2020-21 onwards. As with the original policy, there are no significant behavioural responses included in the costing.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | -305 | -265 | +160 | +125 |

## Areas of uncertainty

The main uncertainties in this costing relate to the extent to which eligible service charges increase, the turnover of tenancies and the split between general needs and supported housing amongst the affected caseload.

# Affordable Homes Programme: tenure flexibility

## Measure description

This measure removes restrictions on grant funding for the existing Affordable Homes Programme announced at Spending Review and Autumn Statement 2015, to allow funding to be allocated flexibly between affordable rented homes, Shared Ownership and Rent to Buy.

## Costing

The costing is calculated by applying assumptions about the change in grant funding paid to housing associations for different types of affordable housing. Changes in grant funding awarded for different housing types affect housing associations' levels of investment, interest payments, rents and service charges, operating costs and receipts through asset sales. These are calculated using the OBR's Autumn Statement 2016 housing association model.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | -10 | -30 | -85 | -50 | -95 | -70 |

## Areas of uncertainty

The main uncertainty in this costing relates to the level of grant funding awarded to each housing type, and how this changes housing associations' investment plans.

# Affordable Homes Programme: additional funding

## Measure description

This measure increases the total amount of funding available through the 2016 – 2021 Affordable Homes Programme by £1.4 billion. The expected allocation of this additional grant funding between tenures is anticipated to be broadly similar to the main programme.

## Static costing

The static costing is calculated by applying assumptions about the additional grant funding paid to housing associations for different types of affordable housing. Additional grant funding awarded for different housing types affects housing associations' levels of investment, interest payments, rents and service charges, operating costs and receipts through asset sales. These are calculated using the OBR's Autumn Statement 2016 housing association model.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -1,010 | -960 | -780 | -250 | -260 |

## Areas of uncertainty

The main uncertainty in this costing relates to the level of grant funding awarded to each housing type, and how this changes housing associations' investment plans.

# Fuel Duty: freeze in 2017-18

## Measure description

This measure freezes the main rate of fuel duty at 57.95 pence per litre for 2017-18, from 1 April 2017.

## The tax base

The tax base is every litre of taxable fuel that is made available for use in the United Kingdom. In 2015-16, this was 52.1 billion litres. The projected volumes for petrol and diesel clearances are taken directly from the fuel duty forecasting model.

## Costing

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

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

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -845 | -845 | -860 | -885 | -910 |

## Areas of uncertainty

The main area of uncertainty relates to the size of the tax base, since the impact of behaviour is relatively small.

# Universal Credit: reduce taper to 63%

## Measure description

The Universal Credit taper rate is reduced from 65% to 63% from April 2017.

## The costing base

The cost base is estimated using the Department for Work and Pensions' (DWP) Policy Simulation Model for Universal Credit. The cost base is consistent with OBR Autumn Statement 2016 forecast determinants.

## Costing

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

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -35 | -175 | -400 | -570 | -700 |

## Areas of uncertainty

The main uncertainty in this costing relates to projections of Universal Credit caseload.

## NS&I Investment Bond

This measure will offer 3 year fixed term savings bond through NS&I to support savers who have been affected by low interest rates. The Investment Bond will offer savers aged 16 and over an indicative rate of 2.2% on between £100 and £3,000 of their savings from spring 2017.

The Investment Bond will be on sale for 12 months over which period it is forecast that the total sales will be £6.3 billion.

### The costing base

The cost base consists of the total of raising £6.3 billion of government financing through gilt issuance by the Debt Management Office (DMO) and standard NS&I products.

### Costing

Money raised by NS&I is public borrowing and interest paid on NS&I products is debt interest. Usual debt financing decisions are not shown on the scorecard. However, this measure is included to recognise that these bonds are a specific policy measure.

The costing is calculated by estimating the increased cost of the Investment Bond over usual borrowing decisions, which it is assumed would be through a combination of gilt issuance by the DMO and standard NS&I products. This is the difference between a pre-measure scenario where the government finances £6.3 billion through the Debt Management Office and NS&I, and a post measure scenario where £6.3 billion is financed through the new NS&I Investment Bond. The costing is based on the forecast cost of borrowing through the DMO and NS&I over the relevant period and factors in the tax receipts associated with gilt coupon payments and interest paid on retail savings.

#### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -45 | -85 | -90 | -45 | 0 |

### Areas of uncertainty

The main uncertainty in this costing relate to take up and changes in the cost of borrowing through gilts.

## Right to Buy: expand pilot

### Measure description

Following an initial small-scale pilot of the voluntary Right to Buy with 5 housing associations, the government is launching an expanded regional pilot in 2017-18.

### The cost base

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

### Costing

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

#### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -25 | -90 | -110 | -25 | 0 |

### Areas of uncertainty

The main uncertainties in the costing relate to sale prices and discount rates.

# Insurance Premium Tax: 2ppt increase from June 2017

## Measure description

The standard rate of Insurance Premium Tax (IPT) is currently set at 10%. This measure increases the standard rate of IPT from 10% to 12%.

The measure takes effect from 1 June 2017.

## The tax base

The tax base is the value of all insurance premiums currently taxed at the standard rate of IPT, which includes motor insurance, property insurance, liability insurance, medical insurance and insurance against pecuniary loss. The tax base is estimated using HMRC operational data and is grown over the forecast period in line with the OBR Autumn Statement 2016 forecast for IPT.

## Costing

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

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

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +680 | +840 | +840 | +845 | +855 |

## Areas of uncertainty

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

# National Insurance contributions: align primary and secondary thresholds

## Measure description

This measure limits the increase in the weekly employer National Insurance contributions (NICs) secondary threshold to £1 in 2017-18. The secondary threshold is the point from which employer NICs is charged and, as a result of CPI indexation, was due to increase by £2 per week from 2017-18. This measure will align the secondary threshold for employer NICs with the primary threshold for employee NICs at £157 per week in 2017-18.

## The tax base

The tax base is pay over £157 per week to employees by all employers. The tax base is estimated using data on taxable incomes taken from the Survey of Personal Incomes, comprising a sample of around 730,000 tax records, weighted to be representative of all taxpayers. The data used is for the tax year 2013-14.

The tax base, including taxpayer numbers and incomes, is projected forward over the forecast period in line with OBR Autumn Statement 2016 determinants.

## Costing

The Exchequer impact is estimated using a micro-simulation model of the UK tax system. The pre- and post-measure tax regimes are applied to the tax base described above to estimate the impact of the measure in terms of the difference in income tax and National Insurance contribution liabilities. An impact on employer NIC reliefs is also calculated.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +170 | +145 | +145 | +145 | +145 |

## Areas of uncertainty

The main uncertainties in this costing relate to the projection of the Survey of Personal Incomes data from 2013-14.

# Salary Sacrifice: remove tax and NICs advantage

## Measure description

This measure will change the income tax and National Insurance contributions (NICs) treatment of certain benefits in kind (BiKs) when provided through salary sacrifice arrangements, so that the taxable benefit is at least equal to the salary sacrificed. This will not apply to salary sacrifice for employer pension contributions, pension advice, employer-supported childcare, workplace nurseries, low emission cars (those with $CO_2$ emissions of up to 75g/km) or the Cycle to Work scheme.

This measure will be effective for new arrangements from April 2017. Any arrangements already in effect at that date will not be subject to the charges until April 2018 (and April 2021 for cars, accommodation and school fees).

## The tax base

The tax base is the salary sacrificed for arrangements relating to the benefits within the scope of this measure. The value of the tax base is estimated through analysis of various data sources including the Family Resource Survey, employer surveys and NHS data.

The tax base is grown in line with the appropriate OBR Autumn Statement 2016 determinants for each benefit category; including wage and inflation determinants.

## Costing

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

Allowances are then made for behavioural responses by employers and employees. For example, employees may stop using salary sacrifice or employers may cease to operate the salary sacrifice arrangements.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | -10 | +85 | +235 | +235 | +235 | +260 |

## Areas of uncertainty

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

# Money Purchase Annual Allowance: reduce to £4,000 per annum

## Measure description

This measure reduces the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000. The MPAA is the annual amount individuals can contribute to Defined Contribution pensions after having previously accessed a pension flexibly.

This measure will be effective from April 2017. We will consult on the detail.

## The tax base

The tax base is relieved contributions made to Defined Contribution pensions by individuals who have accessed pensions flexibly in excess of the new £4,000 MPAA. The tax base is estimated using the Survey of Personal Incomes and other HMRC administrative data, and the ONS Annual Survey of Hours and Earnings.

The tax base is projected forward over the forecast period in line with OBR determinants.

## Costing

The static costing is estimated as a proportion of the current amount given relief at the £10,000 MPAA.

The costing includes a behavioural effect to account for the reduction in incentive for individuals to divert their earnings through pensions. As the MPAA limit is being lowered the costing also accounts for individuals who make use of the higher MPAA before it is reduced (forestalling).

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +70 | +70 | +70 | +75 | +75 |

## Areas of uncertainty

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

# Company Car Tax: reforms to incentivise ULEVs

## Measure description

This measure announces a change to the appropriate percentage banding structure used in establishing the taxable benefit for ULEV company cars. The appropriate percentages for zero emission cars will be 2%, while those for cars with $CO_2$ emissions between 1g/km and 50g/km will vary between 2% and 14% depending on the number of zero-emission miles the vehicle can travel. The measure also increases appropriate percentages by 1 percentage point to a maximum value of 37% for cars with $CO_2$ emissions of 90g/km and above. The measure will be effective from April 2020.

## The tax base

The tax base consists of the taxable benefits for company cars. The value is estimated using data reported by employers to HMRC. HMRC Employer Compliance System data is used to estimate the tax base in 2014/15. The tax base is projected across the forecast period using a range of assumptions, including increasing car prices with the OBR's Consumer Price Index determinants, projected reductions in $CO_2$ emissions, and Department for Transport projections for ULEV take-up and prices.

## Costing

The costing is calculated by taking the difference in yield when applying pre- and post-measure appropriate percentages to the tax base described above, taking into account the average tax rate for company cars of different $CO_2$ emission levels. The costing allows for a reduction in fuel benefit take-up due to the higher charge and increases in take-up of ULEV and electric company cars as a result of the change in bandings.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | 0 | 0 | +25 | +5 |

## Areas of uncertainty

The main uncertainties in this costing arise from the assumptions used for the projection of the tax base and the behavioural responses of individuals and employers.

# VAT Flat Rate Scheme: 16.5% rate for businesses with limited costs

## Measure description

This measure introduces a 16.5% rate for VAT Flat Rate Scheme (FRS) registered businesses where costs of good are either:

- less than 2% of turnover, or
- greater than 2% of turnover but less than £1,000 per annum

Goods must be used by a flat rate trader exclusively for the purposes of the trader's business, but exclude certain items.

This measure takes effect from 1 April 2017.

## The tax base

The tax base is estimated using HMRC administrative data from historic VAT returns of VAT registered businesses. This is grown in line with OBR Autumn Statement 2016 VAT receipts forecast.

## Costing

The costing is the difference between the VAT revenue that will be obtained from applying the 16.5% rate to businesses with limited costs and the revenue currently received from them. Behavioural effects have been included to account for expected trader responses including switching from the FRS to standard VAT accounting, deregistering for VAT and other possible mitigation.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +195 | +130 | +130 | +125 | +115 |

## Areas of uncertainty

The main areas of uncertainty are the size of the tax base and the behavioural response.

# Disguised Remuneration: extend to self-employed and remove company deductions

## Measure description

This measure tackles the use of disguised remuneration avoidance schemes, which are used to avoid income tax and National Insurance contributions (NICs).

This measure is an extension to the Budget 2016 measure which focused on use of similar schemes by employers and contractors. It will create a new tax charge on historic loans drawn from disguised remuneration avoidance schemes by self-employed users that remain unpaid on 5 April 2019. The legislation will also address current usage of these schemes.

The measure prevents corporation tax and income tax relief for employers' payments from disguised remuneration tax avoidance schemes unless Pay as You Earn (PAYE) and NICs are paid at the outset, or within 12 months from the end of the accounting period for which the deduction has been claimed.

This measure will be effective for transactions entered into from April 2017.

## The tax base

The tax base consists of the historic tax due from use of these avoidance schemes and use anticipated in the future by employers and the self-employed in the absence of a policy change.

The yield excludes revenue that is expected to be collected from Accelerated Payment Notices.

## Costing

The costing is estimated by determining the value of the tax base described above. The reduction in tax relief payments is calculated, which results in the static yield.

The costing also accounts for a reduction in the estimate of employers seeking to avoid the Budget 2016 disguised remuneration rules as a result of this measure preventing the possibility of a corporation or income tax relief against disguised remuneration payments.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | +10 | +25 | +180 | +310 | +40 | +65 |

## Areas of uncertainty

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

# Adapted Motor Vehicles: prevent abuse

## Measure description

This measure involves a number of changes designed to prevent abuse of the zero-rating of cars, including: a limit on the number of vehicles that can be purchased under the relief in a given period; mandatory declaration forms; and the introduction of a penalty for fraudulent activity.

The measure will be effective from 1 April 2017.

## The tax base

The tax base is the total value of relevant car sales of zero-rated adapted vehicles in a year. This is estimated using HMRC operational data and then grown by the OBR Autumn Statement 2016 GDP determinant across the forecast period.

## Costing

The costing is estimated as the number of zero-rated sales currently taking place that would be prevented by the measure and subject to the standard rate of VAT.

The costing also accounts for a behavioural response whereby some of those affected may find alternative routes of avoidance.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +20 | +15 | +15 | +15 | +15 |

## Areas of uncertainty

The main area of uncertainty relates to the size of the tax base and the behavioural response.

# Employee Shareholder Status: abolish tax advantage for new schemes

## Measure description

This measure removes both the Capital Gains Tax exemption and the income tax/ National Insurance Contributions (NICs) relief available for shares awarded under new Employee Shareholder Status (ESS) agreements.

This measure will apply for agreements entered into on or after 1 December 2016.

## The tax base

The tax base consists of the combined total of the first £2,000 worth of shares acquired, and CGT-exempt gains realised on shares acquired, by employees under new ESS arrangements. This is estimated with consideration of HMRC administrative and operational data and HMRC intelligence. The tax base is grown over the forecast period in line with OBR Autumn Statement 2016 equity price forecasts.

## Costing

The costing is estimated by comparing the forecast cost of reliefs for new ESS agreements with the removal of these reliefs.

The costing accounts for a behavioural response whereby some of the population affected find alternative routes of tax planning.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | neg | +10 | +15 | +15 | +25 | +50 |

## Areas of uncertainty

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

# HMRC: administration and operational measures

## Measure description

This grouping includes three administrative and operational measures these are: Closure Rules, HMRC Litigation and Settlement and Insolvency Analytics.

Tax Enquiries: Closure Rules: This measure will enable HMRC and taxpayers to conclude discrete matters in enquiries into Self-Assessment (SA) and Corporation Tax Self-Assessment (CTSA) tax returns ahead of the final closure of the enquiry by means of a Partial Closure Notice.

HMRC have powers to enquire into customers' SA and CTSA tax returns to ensure the return is complete and correct. Currently an enquiry can only be finalised once all disputed matters have been resolved. This can mean that enquiries into avoidance or large and complex cases take longer to conclude. This can provide an unfair cash flow advantage to some customers.

This measure will enable partial closure of a discrete matter within an enquiry (where the tax position can be determined). This will give HMRC the power to issue a Partial Closure Notice and taxpayers the power to apply to a Tribunal for a Partial Closure Notice. This power will have effect from Royal Assent to the Finance Bill 2017. It will be applicable to existing, as well as new cases.

HMRC Litigation and Settlement: This measure will deploy additional HMRC resources to:

- increase the number of cases challenged under the General Anti-Abuse Rule (GAAR)
- further accelerate litigation and Follower Notices
- expand litigation settlement activity amongst those who have used avoidance schemes

Insolvency Analytics: At Budget 2016 Ministers announced HMRC will develop its ability to identify emerging insolvency risk, using external analytical expertise.

HMRC will use this expertise to tailor its debt collection activity, improve customer service and provide support to struggling businesses and as such will minimise HMRC's losses caused by business insolvency.

This measure will start in 2017-18.

## The tax base

**Tax Enquiries: Closure Rules:** The tax base is the unpaid tax, interest, and penalties due on any open enquiry, in which there are multiple disputed matters and potentially significant tax at stake, complexity, or avoidance.

The tax base is estimated using HMRC administrative and operational data, and is grown over the forecast period using OBR Autumn Statement 2016 wage determinants.

**Litigation and Settlement:** The tax base is estimated separately for each of the broad strands of activity:

- the tax base for increasing the number of cases challenged under the GAAR is the value of schemes in the GAAR pipeline. This is estimated using HMRC operational and administrative data
- the tax base for further accelerating litigation and Follower Notices (FN) is an estimate of the identified additional amount of disputed tax from tax avoidance arrangements within scope of this measure. This is estimated using HMRC operational and administrative data
- the tax base for leveraging settlements is from the stock of avoidance cases. This is estimated using HMRC operational and administrative data

**Insolvency Analytics:** The tax base is debt that HMRC writes off when customers become insolvent. This is estimated using HMRC operational data.

## Costing

**Tax Enquiries: Closure Rules:** The costing is estimated by applying the pre- and post-measure payment profiles of tax, interest, and penalties to the tax base described above. This results in earlier payment of tax, interest and penalties as elements of cases are closed earlier.

**HMRC Litigation Settlement:** The Exchequer impact is estimated by modelling the yield for each of the above strands of activity pre- and post-measure. Adjustments are made for settling on notification, interactions with previously announced measures, and the time it takes to settle cases.

**Insolvency Analytics**: The costing is estimated by applying pre- and post-measure collection rates to the tax base described above.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | -115 | -20 | +50 | +170 | +215 | +180 |

## Areas of uncertainty

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

# Offshore Tax: close loopholes and improve reporting

## Measure description

This grouping includes three measures relating to the treatment of offshore funds that were previously out of the scope of the UK tax system. These measures are: Offshore funds, Tax treatment of foreign pension schemes and Requirement to correct.

Offshore funds: This measure will disallow the deduction of performance fees by offshore reporting funds in calculating UK taxpayers' reportable income. UK investors in offshore reporting funds pay tax on their share of a fund's reported income; performance fees will no longer be deductible against such reportable income and will instead reduce any gain on disposal.

This measure will apply for reporting periods commencing on or after 1 April 2017.

Tax Treatment of foreign pension schemes: This measure comprises a number of small changes to the current foreign pension's tax regime. The main changes are:

- bringing foreign pensions and lump sums paid to UK residents into tax, aligning with domestic pensions and lump sums
- extending UK taxing rights from 5 to 10 years over non-UK residents' lump sum payments from pension funds transferred out of the UK
- updating the conditions that foreign pension schemes must meet to get UK tax relief on contributions and transfers, by removing the requirement for 70% of transferred funds to be used to provide the member with an income for life
- closing specialist pension schemes for those employed abroad to new saving
- aligning the tax treatment of funds transferred to registered pension schemes

This measure will be implemented from 6 April 2017.

Requirement to correct: This measure introduces new legislation requiring any person who has undeclared UK tax liabilities in respect of an offshore interest to correct that situation by disclosing the relevant information to HMRC by 30 September 2018. This measure includes new sanctions for those who 'fail to correct'. These tax-geared penalties will apply where taxpayers fail to correct past tax affairs. This measure will have effect from Royal Assent of the Finance Bill 2017.

## The tax base

**Offshore funds:** The tax base consists of performance fees relating to offshore reporting funds that are deducted when calculating UK taxpayers' reportable income. This is estimated using evidence from a recent HMRC review of a sample of offshore reporting funds. The tax base is grown over the forecast horizon using OBR Autumn Statement 2016 equity price determinants.

**Tax treatment of foreign pension schemes:** The tax base consists of payments out of foreign pensions that are affected by one of the changes mentioned above. This is estimated using HMRC data on UK pension transfers to foreign schemes as well as payments made from foreign pension regimes.

**Requirement to correct:** The tax base is the outstanding undeclared UK tax liabilities due from UK residents with offshore financial interests and their associated assets and income. This has been estimated using data from Automatic Exchange of Information agreements, HMRC compliance interventions and HMRC administrative data.

## Costing

**Offshore funds:** The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. It also includes a behavioural effect to account for possible changes to the way fees are charged or an increase in tax planning.

**Tax treatment of foreign pension schemes:** This costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above

**Requirement to correct:** The Exchequer impact consists of the estimated value of 'failure to correct' penalties that will be charged on those who do not complete their requirement to correct by disclosing underpaid tax; and additional tax resulting from a behavioural response whereby individuals come forward to disclose their offshore tax affairs as a result of the new sanctions

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +10 | +25 | +15 | +60 | +70 |

## Areas of uncertainty

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

# Money Service Businesses: bulk data gathering

## Measure description

This measure extends HMRC's data-gathering powers to Money Service Businesses (MSBs), which are entities that provide money transmission, cheque cashing or currency exchange services. This will assist HMRC in identifying businesses and individuals operating in the hidden economy.

## The tax base

The tax base for this measure is the revenue loss occurring as a result of economic activity in the hidden economy that should accrue tax. The latest estimate of the tax gap due to hidden economy activity was £6.2 billion in 2014/15.

## Costing

The costing is calculated by estimating increases in the success rate and average tax yield from HMRC hidden economy investigations from the use of the new data, based on historical evidence using similar data.

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

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +5 | +5 | +10 | +10 |

## Areas of uncertainty

The main area of uncertainty is the impact of the new data.

# Tax Credits: correcting awards

## Measure description

A higher level of Child Tax Credit (CTC) is awarded to families with disabled children for whom Disability Living Allowance (DLA) is paid. It is the customer's responsibility to inform HMRC that they receive DLA for their child. However it is HMRC's practice to take data from Department for Work and Pensions (DWP) about such children and update the customer's CTC awards automatically.

There was a gap in the data-feed between DWP and HMRC during 2011-14 and because of this around 28,000 families in 2016-17 are not receiving the higher level of CTC which reflects their receipt of DLA.

This measure will be an in-year adjustment to pay the higher level of Child Tax Credit (CTC) to these families for this financial year, from 6 April 2016. Payments will continue in future years for as long as the families remain eligible.

## The tax/costing base

The tax base is the population of affected families in receipt of Child Tax Credit. This is estimated using HMRC and DWP administrative data.

## Costing

The costing is estimated by comparing pre and post-measure tax credits expenditure. An adjustment is made for families ceasing to be eligible.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | -95 | -80 | -65 | -55 | -40 | -25 |

## Areas of uncertainty

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

# Business Rates: support for broadband

## Measure description

This measure provides a new 100% business rates relief for 5 years on new fibre from 1 April 2017.

## The tax base

The tax base is based on the Valuation Office Agency's (VOA) current estimates of the rateable value of telecoms infrastructure. This was grown in line with OBR Autumn Statement 2016 determinants for business investment and publicly-announced plans of telecom providers regarding number of connections to determine the value of the new fibre investment.

## Costing

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

Two further adjustments are made:

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

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -10 | -10 | -15 | -20 |

## Areas of uncertainty

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

# Business Rates: Rural Rate Relief

## Measure description

This measure will increase the Rural Rate Relief from 50% to 100% from 1 April 2017 onwards. For the first year, this will be achieved through a Section 31 grant.

## The tax base

The NNDR (National Non-Domestic Rates) return reports information on Rural Rate Relief and the estimated cost of the current scheme. This information is derived from the national non-domestic rates returns submitted by all 326 billing authorities in England.

## Costing

2015-16 NNDR reports that the current cost of Rural Rate Relief is around £5 million. Properties eligible for Rural Rate Relief get 50% relief. Therefore, increasing the relief to 100% would have the estimated additional exchequer cost of £5 million.

These costs are based on 2015-16 forecasts. To develop a cost profile for the scorecard, this cost has been uprated by RPI, (the current measure of inflation used to uprate business rates), which changes to CPI in 2020-21.

Two further adjustments are made to the static costs:

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

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -5 | -5 | -5 | -5 |

## Areas of uncertainty

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

# Gift Aid reforms

## Measure description

This measure introduces changes in response to the review of the Gift Aid Small Donations Scheme (GASDS).

This measure also introduces a new voluntary process where donors can complete a Gift Aid Declaration (GAD) to give an intermediary permission to complete GADs on their behalf for the remainder of the tax year.

Both measures are effective from April 2017.

## The tax base

The tax base is estimated using HMRC administrative data on GASDS usage and Gift Aid claims and is projected over the forecast period in line with charitable tax reliefs in the income tax forecast.

## Costing

For the changes in GASDS, the static costing is calculated by estimating the impact of an increase in the number of charities claiming GASDS. An adjustment is made for behavioural effects including higher average GASDS claims by charities and for the number of charities claiming GASDS at the maximum eligible level.

For the changes in GAD, there is no static cost. The cost of this measure is calculated by accounting for the increased use of Gift Aid by donors.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | neg | -10 | -15 | -15 | -20 |

## Areas of uncertainty

The main area of uncertainty is around the magnitude of behavioural response following the changes in the measure.

# Museums and Galleries tax relief

## Measure description

This measure will broaden the scope of the museums and galleries tax relief announced at Budget 2016 to include permanent exhibitions so that it is accessible to a wider range of institutions across the country. The rates of relief will be set at 25% for touring exhibitions and 20% for non-touring exhibitions and the relief will be capped at the equivalent of £500,000 of qualifying expenditure per exhibition. In line with other creative sector tax reliefs, the credit will only be available on a maximum of 80% of qualifying expenditure.

This measure takes effect from 1 April 2017.

## The tax base

The tax base is the amount of qualifying expenditure by qualifying museums and galleries on touring and non-touring exhibitions. This has been estimated using expenditure data provided by Arts Council England as well as a number of other case studies from individual museums and representative groups like the Association of Independent Museums, and is grown in line with the OBR's Autumn Statement 2016 GDP determinants.

## Costing

The costing is calculated by applying the new rates of relief to the qualifying expenditure.

The costing includes a behavioural effect to account for increased spending on new or improved exhibitions and tours as a result of the relief. The changes announced at Autumn Statement 2016 to extend the relief to permanent exhibitions and introduce a cap balance out, resulting in no overall change to the cost of the measure.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -30 | -30 | -30 | -30 |

## Areas of uncertainty

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

# Social Investment Tax Relief: implement with a £1.5m cap

## Measure description

Social Investment Tax Relief (SITR) has been in place since 6 April 2014 to allow tax relief for direct private investment in social enterprises.

This measure replaces the proposed expansion announced at Autumn Statement 2014 with a targeted expanded regime to run alongside the existing scheme.

The measure takes effect from 6 April 2017.

## The tax base

The tax base is the amount of social investment upon which relief is claimed. This is estimated based on a research report on social investment via financial intermediaries and on Social Investment Bonds published by the City of London. The tax base is grown in line with OBR Autumn Statement 2016 equity price determinants.

## Costing

The costing is the difference in eligible investment multiplied by the relief rate under the baseline and the post-measure forecast, and includes a small adjustment for anticipated unclaimed relief.

The costing includes a behavioural effect to account for increased investment following the expansion of the relief by new and existing investors.

The costing represents the difference between Autumn Statement 2014 projections of the enlargement of SITR, and a revised estimate, which takes into account take-up of SITR to-date and the modified policy design.

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +10 | +5 | +5 | neg | -5 |

## Areas of uncertainty

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

# Off-payroll working: implement consultation reforms

## Measure description

This measure removes the 5% allowance available to individuals engaged through an intermediary typically a personal service company. This allowance was intended to cover the costs of operating the rules, and has been removed since the off-payroll reform announced at Budget 2016 means that the individual is no longer responsible for operating these rules. Similarly to the reform, this change will only apply to engagements with public sector end-clients, both direct and through agencies or other third parties. The government proposes to apply the change to public sector bodies as defined in the Freedom of Information Act 2000 and the Freedom of Information (Scotland) Act 2002.

The measure will be effective from 6 April 2017.

## The tax base

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

## Costing

The costing is the difference between the baseline forecast of tax revenues from relevant intermediaries with the 5% allowance, and the post-measure forecast where the 5% allowance is removed.

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

### Exchequer impact (£m)

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +25 | +20 | +20 | +25 | +25 |

## Areas of uncertainty

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

# A Indexation in the public finance forecasts baseline

The following table shows the indexation assumptions that have been included in the public finance forecast baseline, including all pre-announcements, for Autumn Statement 2016 policy costings. Unless otherwise stated, changes are assumed to take place in April each year and tax raises are fixed.

| Forecast area | Element | Default indexation assumed in the baseline | Pre-announced policy changes from 2016-17 onwards |
|---|---|---|---|
| Income tax | Personal allowance | Multiply the personal allowance from the previous tax year by CPI(%), and round up to the nearest £10. Add this figure to the previous year's personal allowance level. | The personal allowance will increase to £11,500 in April 2017 |
| | Basic Rate Limit | Multiply the personal allowance from the previous tax year by 100% + CPI(%), and round up to the nearest £100. | The higher rate threshold, which is the sum of the personal allowance and the basic rate limit, will be set at £45,000 in April 2017 |
| | Personal savings allowance | Fixed at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers | |
| | Starting rate limit for savings income | CPI, increase rounded up to the nearest £10 | |
| | Threshold for additional rate | Fixed at £150,000 | |
| | Income limit for tapered withdrawal of personal allowances | Fixed at £100,000 | |
| | Pensions Tax Relief – annual allowance | Fixed at £40,000 | |

| | | | |
|---|---|---|---|
| | Pensions Tax Relief – tapered annual allowance | | |
| | Pensions Tax Relief – Lifetime Allowance | Fixed at £1.25 million | Lifetime allowance will be uprated with CPI from April 2018. |
| | Individual Savings Accounts – annual subscription limit | In line with CPI, rounded to nearest £120. | |
| | Individual income threshold for high income child benefit – tax charge | Fixed at £50,000 | |
| | Marriage tax allowance | Fixed at 10% of the personal allowance | |
| NICs | Lower earnings limit | CPI increase rounded down to the nearest £1pw | |
| | Primary threshold / lower profits limit | CPI increase rounded to the nearest £1pw. Annual PT/LPL is weekly multiplied by 52 | |
| | Secondary threshold | CPI increase rounded to the nearest £1pw | Aligned with the primary threshold for 2017-18, thereafter will revert to the default indexation assumption |
| | Upper earnings limit / upper profits limit | Aligned with income tax Higher Rate Threshold | Aligned with income tax Higher Rate Threshold |
| | Small profits threshold | CPI, increase rounded up to the nearest £10 and then added to the previous year's figure | Aligned with annual lower earnings limit from April 2018 |

| | | | |
|---|---|---|---|
| | Contribution rates | Fixed percentage, apart from Class 2 and Class 3 weekly rates which rise by CPI, rounded to the nearest 5p | |
| | Employment allowance | Fixed at £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 entrepreneurs' relief | Fixed at £10 million | |
| Inheritance tax | Nil rate band | CPI rounded up to the nearest £1,000 | Freeze on the nil-rate band until 2020/21 (freeze at £325,000) |
| Working-age social security benefits and payments: Jobseeker's Allowance, Income Support, Employment and Support Allowance, Housing Benefit. | All main rates | September's CPI | The personal allowances of the working-age benefits; the ESA WRAG component and its UC equivalent; and Local Housing Allowances are frozen for four years from 2016/17.<br><br>The disability and carer premiums in JSA, ESA, IS and Housing Benefit are exempt from this four year uprating freeze. |

| | | | |
|---|---|---|---|
| Disability Benefits: Disability Living Allowance; Attendance Allowance; Carer's Allowance; Incapacity Benefit; and ESA support group element and its UC equivalent | All main rates | September's CPI | |
| Statutory payments: Statutory maternity pay; adoption pay; paternity pay; shared parental pay; and sick pay; Maternity Allowance; and Guardian's Allowance. | All main rates | September's CPI | |
| Basic State Pension | All categories | Highest of earnings, CPI or 2.5% | |
| Additional State Pension | All categories | CPI | |
| Pension Credit | Guarantee Credit | Earnings | |
| | Savings Credit | Maximum savings credit award frozen in real terms. | |
| Child Tax Credit | Family element | Fixed at £545 per year | |
| | Child element | September's CPI, rounded up to the nearest £5 | Four year uprating freeze from 2016/17 |
| | Disabled and enhanced disabled child elements | September's CPI, rounded up to the nearest £5 | |
| Working tax credit | Basic element, 30 hour element, second adult element, lone parent element | September's CPI, rounded up to the nearest £5 | Four year uprating freeze from 2016/17 |
| | Disability elements | September's CPI, rounded up to the nearest £5 | |

| | | | |
|---|---|---|---|
| | Maximum eligible childcare costs (for 1 and 2+ children) | Fixed at 70% of actual childcare costs of up to £175 a week for one child or £300 a week for two or more children | |
| Child benefit | Eldest (or only) child and subsequent children amounts | September's CPI, rounded up to the nearest 5p | Four year uprating freeze from 2016/17 |
| Stamp duties | Stamp duty land tax thresholds for residential property | Fixed at £125,000, £250,000, £925,000 and £1,500,000 | |
| | Stamp duty land tax thresholds for non-residential freehold and leasehold premium transaction | Fixed at £150,000 and £250,000 | |
| | Stamp duty land tax thresholds for non-residential leasehold rent transactions | Fixed at £150,000 and £5,000,000 | |
| Climate Change Levy | Levy amount | RPI | |
| Aggregate Levy | Levy amount | RPI | |
| Landfill tax | Tax rates | RPI, rounded to the nearest 5p | |
| Vehicle excise duty | Duty rates | RPI, rounded to the nearest £1 or £5 | |
| Air passenger duty | Duty rates | RPI, rounded to the nearest £1 | |
| Tobacco duties | Duty rates on all tobacco products | RPI | Increase by 2 percentage points above RPI every year until the end of the Parliament. |
| Alcohol duties | Beer, wine, spirits and cider duties | RPI | |
| Fuel duties | Duty rates | RPI | |

| | | | |
|---|---|---|---|
| VAT | VAT registration threshold | RPI, rounded to the nearest £1,000 | |
| Gaming duty | Gross gaming yield bands | RPI, rounded to the nearest £500 | |
| Business rates | Business rates multiplier | RPI, rounded to the nearest 3 significant figues | |

Office for
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# Certification of policy costings

# B Autumn Statement 2016 policy decisions

## Overview

B.1 Our *Economic and fiscal outlook (EFO)* forecasts incorporate the expected impact of the policy decisions announced in each Budget and Autumn Statement. In the run-up to each statement, the Government provides us with draft estimates of the cost or gain from each measure it is considering. We discuss these with the relevant experts and then suggest amendments if necessary. This is an iterative process where individual measures can go through several stages of scrutiny. After the process is complete, the Government chooses which measures to implement and what costings to include in the 'scorecard' in its Budget or Autumn Statement document. We choose whether to certify the costings as 'reasonable and central', and whether to include them – or an alternative – in our forecast.

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

B.3 The costings process worked reasonably efficiently, with fewer measures submitted just before the deadline than in recent fiscal events. But there were once again a very large number of measures submitted for scrutiny.

B.4 Table B.2 reproduces the Treasury's scorecard, with further details in Chapter 4 and the Treasury's *Autumn Statement 2016 policy costings document*, which summarises very briefly the methodologies used to produce each costing and the main areas of uncertainty.

### Policy decisions not on the Treasury scorecard

B.5 In this *EFO* we have shown the effect on our forecasts for receipts and AME spending of a number of policy decisions that the Treasury has chosen not to present on its scorecard. These effects are presented in Table B.1. They include:

- '**annuities: secondary market**' – this measure was announced in March 2015 and was designed to allow people already receiving pension income from an annuity to sell that income stream to a third party, taking the value either as a lump sum or transferring it to an alternative, taxable, retirement income product. It was originally due to begin in April 2016, but in July 2015 the Government announced a one-year delay. The Government has now decided to cancel it completely. In our March 2015 *EFO* we gave this costing a very high uncertainty ranking, noting that there might be little interest from pensioners and that a secondary market might not develop. The latter proved correct. The decision not to pursue this policy costs £0.9 billion over 2017-18 and 2018-19, with £0.4 billion of that recouped in the remaining years of the forecast;

- '**business rates transitional relief**' – this sets an annual cap on the increase in business rates bills associated with the April 2017 revaluation, with the limit determined by a property's rateable value. It is designed to be revenue neutral, as required by legislation, with the cost of providing relief to some taxpayers offset by higher rates for others. Similar arrangements associated with the last two revaluations operated at a loss despite also being designed to be revenue neutral. On this basis, our March forecast assumed that the 2017 scheme would also operate at a cost. The Government has sought to ensure that the latest scheme will be fiscally neutral in outturn, not just when planned. We have considered its parameters and believe that our central forecast *should* assume that it will be fiscally neutral. Relative to March, this adds £0.8 billion to business rates in 2017-18 and smaller amounts in later years;

- '**VAT on energy saving materials**' – in November 2015 we adjusted our VAT forecast to reflect the Government's assumption that it would comply with an EU court ruling that meant that the reduced rate of VAT (5 per cent) could no longer be applied to the installation of energy saving materials in residential properties. The Government has now informed us that it has postponed that change until an unspecified future date. We have therefore removed the effect from our forecast, which reduces receipts by £50 million a year on average from 2017-18 onwards, and by less in 2016-17; and

- '**Network Rail spending**' – the Government will not set Network Rail's final 'Control Period 6' spending baselines until nearer the end of the current control period, but it has provided a policy assumption that raises capital spending by an average of £1.3 billion a year in 2019-20 and 2020-21. We have recorded this as a non-scorecard measure since it would not have featured in our forecast absent that change in Government assumption.

Table B.1: Costings for policy decisions not on the Treasury scorecard

| | £ million | | | | | |
|---|---|---|---|---|---|---|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
| Annuities: secondary market | 0 | -470 | -475 | +120 | +115 | +115 |
| Business rates transitional relief | 0 | +755 | +475 | +250 | +145 | -90 |
| VAT on energy saving materials | -10 | -20 | -40 | -35 | -85 | -90 |
| Network Rail spending | 0 | 0 | 0 | -1280 | -1080 | -875 |

[1] The presentation of these numbers is consistent with that in the scorecard shown in Table A.2, with negative signs implying an Exchequer loss and a positive an Exchequer gain.

## Uncertainty

B.6 In order to be transparent about the potential risks to our forecasts, we assign each certified costing a subjective uncertainty rating, shown in Table B.2. These range from 'low' to 'very high'. In order to determine the ratings, we have assessed the uncertainty arising from each of three sources: the data underpinning the costing; the complexity of the modelling required; and the possible behavioural response to the policy change. We take into account the relative importance of each source of uncertainty for each costing. The full breakdown that underpins each rating is available on our website. It is important to emphasise that, where we see a costing as particularly uncertain, we see risks lying to both sides of what we nonetheless judge to be a reasonable and central estimate.

## Table B.2: Treasury scorecard of policy decisions and OBR assessment of the uncertainty of costings

| | | Head | £ million | | | | | | Uncertainty |
|---|---|---|---|---|---|---|---|---|---|
| | | | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | |
| **Changes to Inherited Policy** | | | | | | | | | |
| 1 | Personal Independence Payment: not implementing Budget 2016 measure | Spend | -15 | -605 | -1,250 | -1,400 | -1,390 | -1,410 | Medium-high |
| 2 | Universal Credit: reprofile | Spend | -20 | -295 | -445 | -185 | -110 | -425 | Medium |
| 3 | Disability benefits: eligibility test change | Spend | -20 | -20 | -20 | -20 | -15 | -15 | Medium |
| 4 | Social Sector Rent downrating: exemptions | Spend | 0 | -5 | -10 | -15 | -15 | -15 | Medium-low |
| 5 | Pay to Stay: do not implement | Spend | 0 | -280 | -15 | -100 | -100 | -105 | Medium-high |
| 6 | Local Housing Allowance: adjusted roll-out and supported housing fund | Spend | 0 | 0 | -305 | -265 | +160 | +125 | Medium-high |
| **Public spending** | | | | | | | | | |
| 7 | Efficiency Review: reinvestment | Spend | 0 | 0 | 0 | -1,000 | - | - | N/A |
| **National Productivity Investment Fund** | | | | | | | | | |
| 8 | Housing | Spend | -10 | -1,465 | -2,060 | -2,490 | -2,145 | - | N/A |
| 9 | Transport | Spend | 0 | -475 | -790 | -705 | -1,050 | - | N/A |
| 10 | Telecoms | Spend | 0 | -25 | -150 | -275 | -290 | - | N/A |
| 11 | Research and Development | Spend | 0 | -425 | -820 | -1,500 | -2,000 | - | N/A |
| 12 | Long-term investment | Spend | 0 | 0 | 0 | 0 | 0 | -7,000 | N/A |
| **An economy that works for everyone** | | | | | | | | | |
| 13 | Fuel Duty: freeze in 2017-18 | Tax | 0 | -845 | -845 | -860 | -885 | -910 | Medium-low |
| 14 | Universal Credit: reduce taper to 63% | Spend | 0 | -35 | -175 | -400 | -570 | -700 | Medium |
| 15 | NS&I Investment Bond | Spend | 0 | -45 | -85 | -90 | -45 | 0 | High |
| 16 | Right to Buy: expand pilot | Spend | 0 | -25 | -90 | -110 | -25 | 0 | Medium |
| 17 | National Living Wage: additional enforcement | Spend | 0 | -5 | -5 | -5 | - | - | N/A |
| **Tax reform** | | | | | | | | | |
| 18 | Insurance Premium Tax: 2ppt increase from June 2017 | Tax | 0 | +680 | +840 | +840 | +845 | +855 | Medium-low |
| 19 | National Insurance contributions: align primary and secondary thresholds | Tax | 0 | +170 | +145 | +145 | +145 | +145 | Medium-low |
| 20 | Salary Sacrifice: remove tax and NICs advantages | Tax | -10 | +85 | +235 | +235 | +235 | +260 | High |
| 21 | Money Purchase Annual Allowance: reduce to £4,000 per annum | Tax | 0 | +70 | +70 | +70 | +75 | +75 | Medium-high |
| 22 | Company Car Tax: reforms to incentivise ULEVs | Tax | 0 | 0 | 0 | 0 | +25 | +5 | High |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Avoidance, Evasion, and Imbalances** | | | | | | | | | |
| 23 | VAT Flat Rate Scheme: 16.5% rate for businesses with limited costs | Tax | 0 | +195 | +130 | +130 | +125 | +115 | Medium-high |
| 24 | Disguised Remuneration: extend to self-employed and remove company deduction | Tax | +10 | +25 | +180 | +310 | +40 | +65 | Very high |
| 25 | Adapted motor vehicles: prevent abuse | Tax | 0 | +20 | +15 | +15 | +15 | +15 | Medium-high |
| 26 | Employee Shareholder Status: abolish tax advantage for new schemes | Tax | * | +10 | +15 | +15 | +25 | +50 | High |
| 27 | HMRC: administration and operational measures | Tax | -115 | -20 | +50 | +170 | +215 | +180 | High |
| 28 | Offshore Tax: close loopholes and improve reporting | Tax | 0 | +10 | +25 | +15 | +60 | +70 | Very high |
| 29 | Money Service Businesses: bulk data gathering | Tax | 0 | 0 | +5 | +5 | +10 | 10 | Medium-high |
| **Other Tax and Spending** | | | | | | | | | |
| 30 | Overseas Development Assistance: meet 0.7% GNI target | Spend | 0 | +80 | +210 | 0 | - | - | N/A |
| 31 | MoJ: Prison safety | Spend | 0 | -125 | -245 | -185 | - | - | N/A |
| 32 | Grammar Schools expansion | Spend | 0 | -60 | -60 | -60 | -60 | - | N/A |
| 33 | Tax credits: correcting awards | Spend | -95 | -80 | -65 | -55 | -40 | -25 | Medium-low |
| 34 | Biomedical catalysts and Technology Transfers | Spend | 0 | -40 | -60 | -60 | -60 | - | N/A |
| 35 | DCMS Spending | Spend | -10 | -10 | -20 | -15 | -10 | - | N/A |
| 36 | Midlands Rail Hub | Spend | 0 | -5 | -5 | 0 | - | - | N/A |
| 37 | Scotland City Deals and Fiscal Framework | Spend | 0 | -25 | -60 | -75 | -50 | -25 | N/A |
| 38 | Mayfield Review of Business Productivity | Spend | 0 | -5 | -5 | -5 | - | - | N/A |
| 39 | Business Rates: support for broadband and increase Rural Rate Relief | Tax | 0 | -10 | -15 | -15 | -20 | -25 | Medium-low |
| 40 | Gift Aid: reforms | Tax | 0 | * | -10 | -15 | -15 | -20 | Medium |
| 41 | Museums and Galleries tax relief | Tax | 0 | -5 | -30 | -30 | -30 | -30 | Medium-high |
| 42 | Social Investment Tax Relief: implement with a £1.5m cap | Tax | 0 | +10 | +5 | +5 | * | -5 | Medium-high |
| 43 | Offpayroll working: implement consultation reforms | Tax | 0 | +25 | +20 | +20 | +25 | +25 | Medium-high |
| | **TOTAL POLICY DECISIONS** | | **-285** | **-3,555** | **-5,695** | **-7,960** | **-6,925** | **-8715** | |
| | ***TOTAL POLICY DECISIONS EXCLUDING NPIF AND INHERITED POLICY*** | | **-220** | **+40** | **+170** | **-5** | **+30** | **130** | |
| | **Total tax policy decisions** | | **+25** | **+375** | **+640** | **+720** | **+565** | **555** | |
| | **Total spending policy decisions** | | **-310** | **-3,930** | **-6,335** | **-8,680** | **-7,490** | **-9270** | |

**negligible*

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

*[2] At Spending Review 2015, the government set departmental spending plans for RDEL for years up to 2019-20 and CDEL for years up to 2020-21. RDEL budgets have not been set for most departments for 2020-21 and CDEL for 2021-22. Given this, RDEL figures are not set out for 2020-21 and CDEL for 2021-22.*

B.7 Table B.3 shows the detailed criteria and applies them to a sample policy measure from this Autumn Statement: '**Insurance Premium Tax: 2ppt increase from June 2017**'. This is expected to yield £4.1 billion from 2017-18 to 2021-22 by raising the standard rate of insurance premium tax from 10 to 12 per cent. For this policy we have judged that the most important source of uncertainty will be data, followed by behaviour, then modelling.

B.8 The data used consist of high quality HMRC administrative data, so we consider this to be a 'medium low' source of uncertainty.

B.9 We consider the greatest uncertainty to be from the behavioural response to the change. As the tax rise is passed on by insurers, the cost of insurance will rise, reducing demand. The costing estimates the response of demand to these higher prices, known as the price elasticity of demand. Direct evidence is not available, so the costing includes an assumption based on academic research. It also assumes that some consumers will bring forward their purchases before the tax rise. Again, this is judgement based, although it is not considered to be material to the costing. We consider this to be a 'medium' source of uncertainty.

B.10 The modelling is based on an HMRC forecasting model that has been subject to relatively small errors.[1] So we regard this as a 'medium low' source of uncertainty.

B.11 Taking all these judgments into account, we gave the costing a rating of 'medium low'.

Table B.3: Example of assigning uncertainty rating criteria: 'insurance premium tax'

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

B.12 Using the approach set out in Table B.3, we have judged five measures in the scorecard to have 'high' uncertainty around the central costing and two to have 'very high' uncertainty. Together, these represent 16 per cent of the Autumn Statement scorecard measures by number and 6 per cent by absolute value (in other words ignoring whether they are

[1] In our 2016 *Forecast evaluation report* we showed the relative fiscal forecast errors at the two-year horizon across most of our receipts and spending forecasts. IPT forecast errors were the second smallest on the volatility-adjusted metric that we used.

expected to raise or cost money for the Exchequer). In net terms, they are expected to raise the Exchequer £2.2 billion in total over the forecast period. The measures are:

- **'offshore tax: close loopholes and improve reporting'** – we give this measure – which has several components targeting offshore evasion – a 'very high' uncertainty ranking. As with most offshore evasion and avoidance measures, estimating the current amount of tax lost and predicting the behavioural response of a group that are already changing their behaviour to avoid paying tax is hugely uncertain. With such little real information, modelling these effects can be highly complex. All elements of the costing receive a 'very high' ranking;

- **'disguised remuneration: extend to self-employed and remove company deduction'** – this combines two elements and receives a 'very high' uncertainty ranking for the one that raises the vast majority of the yield. That part aims to tackle use of schemes by the self-employed to avoid income tax and NICs, by ensuring that all payments to them are taxed, irrespective of their description. It is an extension of the Budget 2016 measure on employers and contractors. The main uncertainty was the behavioural effect, which is common for most avoidance measures. Some users can be expected to find new ways to get around the new proposed rules, whether through different avoidance schemes or outright evasion. Estimating the yield that will be lost from such responses, and how quickly that might build up, make this the key uncertainty in the costing. The data and modelling were both also highly uncertain;

- **'salary sacrifice: remove tax and NICs advantages'** – this receives a 'high' uncertainty ranking. It takes effect from April 2017, changing the amount of taxable benefit for benefits-in-kind provided in exchange for salary sacrifice. The main uncertainty was the data. Information on salary sacrifice take-up is sparse because there is no requirement to report on it to HMRC. As this measure expands the tax base, there was no administrative data to draw on. The costing therefore had to bring together many different data sources to estimate the tax base. Behaviour could also have a significant impact on the yield in 2017-18, because employers and employees may bring forward reviews of their salary sacrifice arrangements;

- **'HMRC: administration and operational measures'** – this measure contains a number of parts and receives a 'high' uncertainty ranking due to the largest. That element provides HMRC with additional resource of up to 200 full-time equivalent staff each year from 2018-19 to 2021-22, with the aim of capitalising on recent strengthening of HMRC's powers with supporting compliance activity. The main area of uncertainty is the number, value and timing of accelerated payment and follower notices that HMRC will issue. As such, the data element receives a 'very high' uncertainty ranking;

- **'NS&I Investment Bond'** – this receives a 'high' uncertainty ranking. In April 2017 the Government will launch a new 3-year savings bond that will be on sale for 12 months. It is open to all those aged 16 and over and is expected to pay an interest rate of 2.2 per cent, with individual deposits capped at £3,000. There is no upper limit to the number of people that can take up the bond. The key uncertainty is take-up, which will depend on returns on other products available when it is launched. With the savings tax allowance having removed tax on savings income for most people, funds may be diverted from ISAs into this product. The latest available data showed 6.9 million people had saved more than £4,000 into an ISA in 2013-14. Previous NS&I products that offered particularly attractive rates have seen very high take-up or have been closed when more funds flowed into them more quickly than expected;

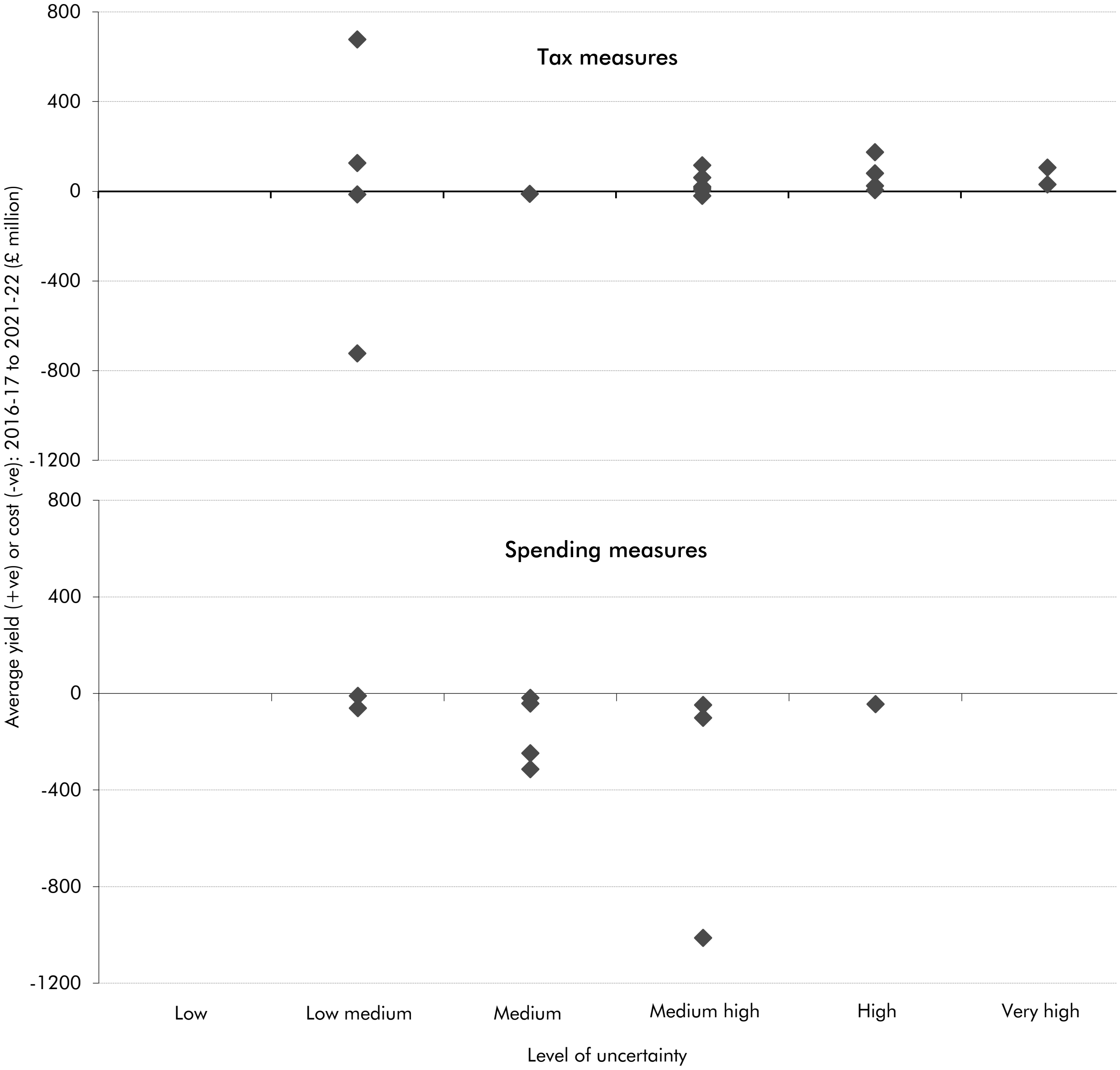
- **'employee shareholder status: abolish tax advantage for new schemes'** – this receives a 'high' uncertainty ranking. In Autumn Statement 2012, the Government announced that the first £50,000 of shares received through an employee share scheme (ESS) – which involves the employee surrendering certain employment rights – would be exempt from capital gains tax (CGT). Further announcements followed in Budget 2013 and Budget 2016. This measure removes the reliefs altogether for any shares awarded under new ESS agreements entered. The most important source of uncertainty was the behavioural effect, which was considered 'very high'. Attrition is applied to the costing to account for aggressive tax-planners finding alternative means of reducing their tax liabilities. Data are also considered a 'high' source of uncertainty as the forecast tax base from previous measures remains uncertain; and

- **'company car tax: reforms to incentivise ULEVs'** – this receives a 'high' uncertainty ranking. HMRC specifies how the taxable benefit value should be calculated for a range of different benefits-in-kind. In the case of company cars, the cash equivalent of the benefit is based on the car's list price (when new) plus any accessories times the 'appropriate percentage'. This measure changes the company car tax (CCT) appropriate percentage banding structure for ultra-low emission vehicles (ULEVs), as well as increasing CCT appropriate percentages in 2020-21 for $CO_2$ emission ranges over 90g/km by 1 per cent. The main uncertainty was modelling. Forecasting the tax base required several steps and relies on assumptions about the proportion of ULEVs forecast by the Department for Transport to be used as company cars.

B.13 We have judged twenty two scorecard measures to have between 'medium-low' and 'medium-high' uncertainty around the central costing, with none having 'low' uncertainty. That means that 48 per cent of the Autumn Statement scorecard measures have been placed in the medium range (43 per cent by absolute value).

B.14 Chart B.1 plots these uncertainty ratings relative to the amount each policy measure is expected to raise or cost. One feature of the distribution of measures by uncertainty is that the spending measures are typically assigned lower uncertainty ratings, while the tax raising measures often have higher uncertainty ratings than the tax cuts. This is particularly true for the measures that aim to raise money from companies and from high income and wealth individuals that are already actively planning their affairs to reduce their tax liabilities. Unlike many recent Budgets and Autumn Statements, in this Autumn Statement the biggest tax raising measure (insurance premium tax) is assigned a lower uncertainty rating.

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




## Longer-term uncertainties

B.15 For most policy costings, the five-year scorecard period is sufficient to give a representative view of the long-term cost or yield of a policy change. Typically, that is either zero – because the policy has only a short-term impact that has passed by the end of the scorecard period – or it would be reasonable to expect the impact at the end of the forecast to rise broadly in line with nominal growth in the economy thereafter. In this Autumn Statement, the final year effects of most scorecard measures are representative of the longer-term cost or yield.

B.16 We note two measures where the scorecard costing is not representative of the longer term. In both cases, long-term effects are particularly uncertain. These are:

- **'HMRC: administration and operational measures'** – the largest revenue raising element of this package is to provide additional resources to expand HMRC's use of accelerated payment and follower notices in the litigation of anti-avoidance cases. As with previous measures in this area, it brings forward yield that HMRC would expect to receive in future years in its absence. On this occasion, we estimate that it raises receipts from 2018-19 to 2022-23 but lowers them from then until 2025-26. It would be broadly revenue neutral overall; and

- **'employee shareholder status: abolish tax advantage for new schemes'** – when this measure was introduced in December 2012, we noted that the cost could rise significantly beyond the scorecard period. The opposite is true of cancelling it. It reduces the cost over the scorecard period by £115 million, but because the arrangements exempt the disposal of these shares from capital gains tax, and there may be a long lag between award and disposal, the yield beyond the scorecard period could rise significantly.

### Small measures

B.17 The BRC has agreed a set of conditions that, if met, allow OBR staff to put an individual policy measure through a streamlined scrutiny process. These conditions are:

- the expected cost or yield does not exceed £40 million in any year;
- there is a good degree of certainty over the tax base;
- it is analytically straightforward;
- there is a limited, well-defined behavioural response; and
- it is not a contentious measure.

B.18 A good example of a small measure announced in this Autumn Statement is '**social sector rent downrating: exemptions**'. In July 2015, the Government announced that social sector landlords would be required to cut rents by 1 per cent a year for the four years up to 2019-20. In September 2016, it was announced that almshouses, community land trusts, co-ops and refuges will be exempt from this. This costs around £10 million a year through higher spending on housing benefit associated with the rents charged by these entities. The data used are high quality and the modelling is straightforward. No behavioural response is expected. And unlike the imposition of the rent downrating policy, removing these entities from its effect is not considered to be contentious.

B.19 By definition, any costings that meet all these conditions will have a maximum uncertainty rating of 'medium'.

## Evaluation of HMRC anti-avoidance measures

B.20 The Treasury Select Committee's report on Autumn Statement 2013 recommended that "*the OBR should do all it can to report on whether yields [from anti-avoidance measures] were* *attained as originally costed.*" We did so first in Box 4.2 of our December 2014 *EFO* and repeated the exercise in our November 2015 *EFO*, after which we published more detail in a working paper.[2] We have repeated the exercise this year, looking at more recent measures and those for which there is new information. In total, 12 measures from the last four years have been evaluated. We also asked for updates on a further three measures where there is not enough information to undertake a full evaluation at this stage. These 15 measures are reported below.

B.21 The revenue impact of anti-avoidance measures tends to be particularly uncertain as they often target a specific subset of taxpayers who are already actively changing their behaviour in response to the tax system. Typically these measures are assigned one of our higher uncertainty rankings as both data quality and behavioural response tend to be uncertain.[3] That is clear again in the uncertainty ratings assigned in this Autumn Statement.

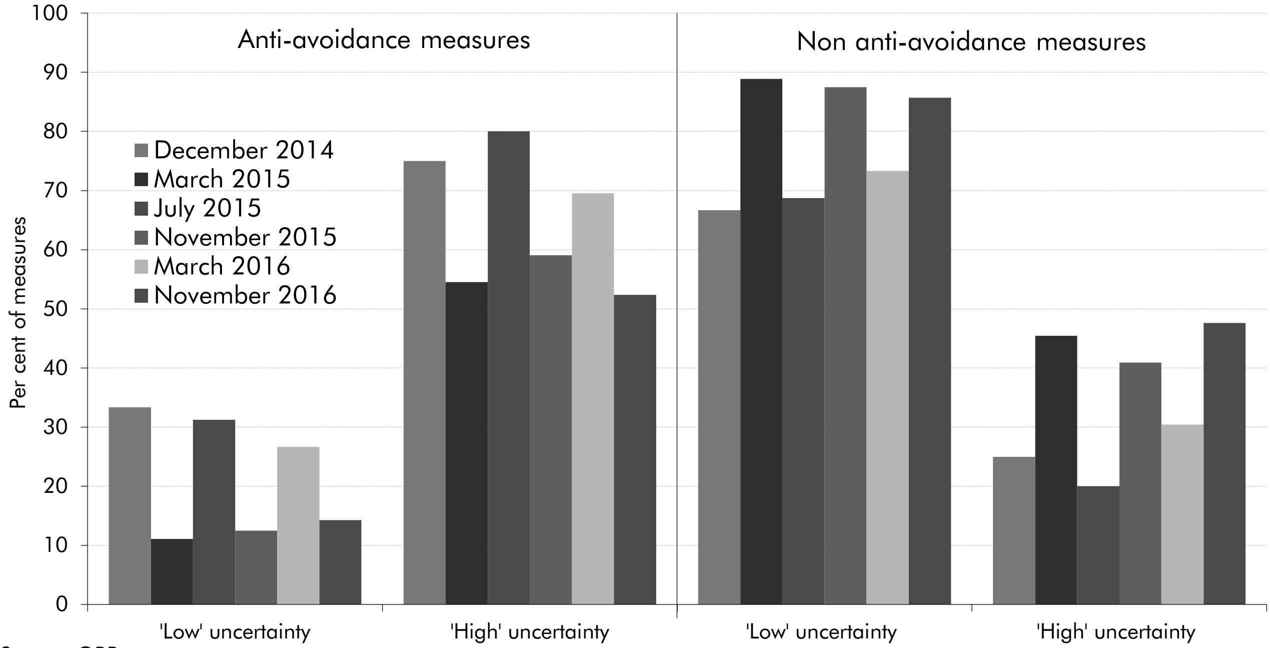
B.22 Chart B.2 confirms that since we began assigning an uncertainty rating to every scorecard measure in December 2014, the types of measures covered by this evaluation have typically received a higher rating than other measures. The first two sets of bars show the ratings for anti-avoidance measures – more often than not these are given one of our three highest uncertainty ratings (very high, high or medium-high, grouped as 'high' for this chart). The opposite is true for other measures, displayed in the third and fourth sets of bars – typically these measures are assigned one of our three lowest ratings (low, medium-low and medium, grouped as 'low' for this chart).

B.23 Due to the difficulty and resource requirements of producing formal counterfactual evaluations, we again draw on evidence from HMRC's monitoring of receipts, operational intelligence and re-costing of previous measures for most of the evaluations.

[2] See Johal and Sousa (2016): *Working Paper No 9: Anti-avoidance costings: an evaluation*.

[3] While we are labelling this an evaluation of anti-avoidance costings, we have broadened it to cover wider HMRC operational activity. This brings into scope measures where HMRC is expecting to increase tax revenue through additional compliance resources or enforcement powers. On the welfare spending side, we have also included measures where HMRC is expecting to make savings from compliance or enforcement actions within the tax credit and child benefit systems that are administered by HMRC. We typically assign a lower uncertainty rating to these types of welfare measures as the quality of data is higher and the behavioural response is more limited.

## Chart B.2: Uncertainty ratings for anti-avoidance measures

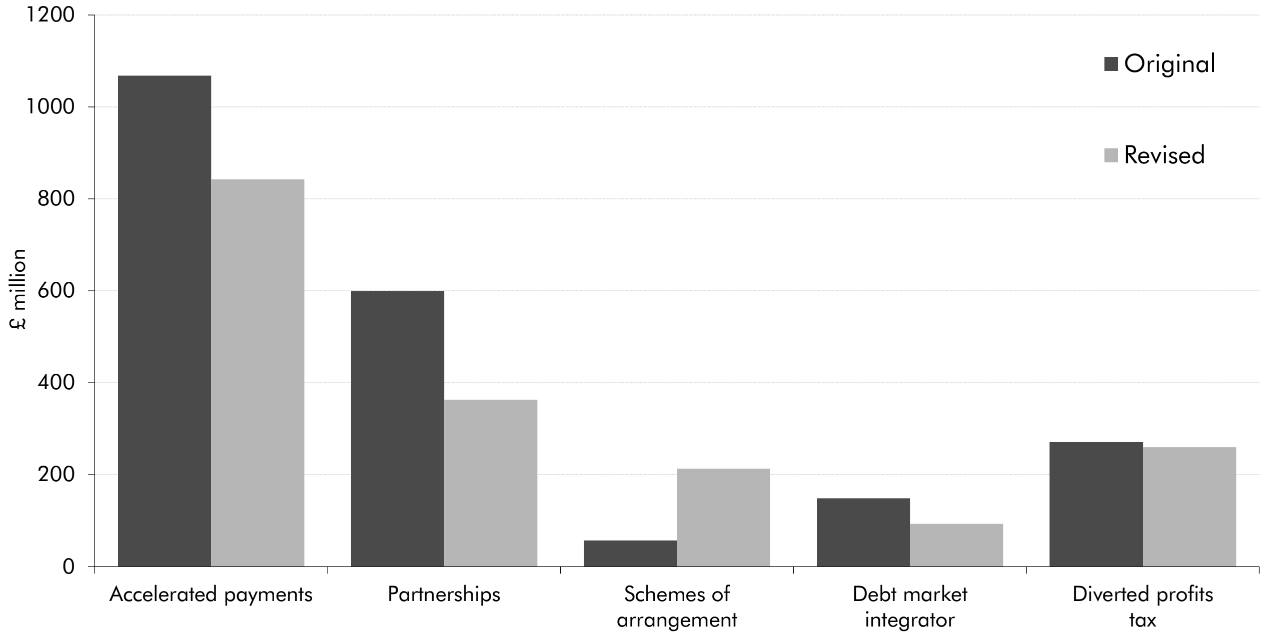



Source: OBR

## Total receipts compared to original costing

B.24 Our previous evaluations showed the vast majority of measures were within £50 million either way of the original estimate. Chart B.3 shows the main findings from this evaluation, comparing average revenue raised each year between the original and revised costings.

## Chart B.3: Comparison of evaluated anti-avoidance measures (average yearly yield)




Source: HMRC, OBR

B.25 For evaluation and monitoring purposes we combine five measures where the yield is generated through '**accelerated payments**' and follower notices.[4] These five measures have so far raised less than expected, and we now expect yield to be lower by an average of £0.2 billion a year. We also combine the two '**partnerships**' measures. These have also raised less than expected, and once again our latest estimate has average yearly yield £0.2 billion lower than the original estimate. Only the '**schemes of arrangement**' stamp duty measure brought in more revenue than expected, by an average of around £0.2 billion a year, and we have revised up our forecast by the same amount as a result. The '**debt market integrator**' measure is now expected to generate savings of an average £55 million a year less than the original costing. The costing for '**diverted profits tax**' is broadly unchanged.[5]

B.26 Measures that changed the most since the original costing include:

- '**accelerated payments**' – since Budget 2013, HMRC has been issuing accelerated payments (AP) notices, which bring in revenue more quickly by demanding payment upfront in avoidance cases. For the most part this is revenue that HMRC would have received in future years but which has now been brought forward, so most of the effect of these measures was due to timing. Chart B.3 shows the combined costings were expected to raise £1.1 billion a year on average from 2014-15 to 2018-19. The two largest measures date from before we formally assigned uncertainty rankings but we highlighted the high level of uncertainty around the multiple-stage costings model that was sensitive to changes in the underlying assumptions. In our November 2015 evaluation, actual AP receipts were higher than originally estimated, so we increased our near-term forecast while reducing it in later years. But information provided by HMRC for this evaluation suggests that the initial estimate of the tax under consideration, which forms the basis for the costing, was too high. This is partly due to some of the stock of cases at the time of the original costing falling out of scope for AP. HMRC have also reduced the average value of cases. It is also possible the threat of receiving an AP notice has acted as a stronger deterrent than originally thought. The combined effect reduces the expected yield of these measures by around £0.2 billion on average a year compared to the original costings;

- '**partnerships**' – in March and December 2013, the Government announced a range of legislation to counter commonly used avoidance schemes involving partnerships. The two measures were expected to yield £3.3 billion between 2014-15 and 2018-19. This was before we formally assigned uncertainty rankings but we highlighted the very high uncertainty around the costings at the time. Of particular concern were the two difficulties common to most anti-avoidance costings – determining the current level of avoidance via existing channels and the future use of alternative avoidance channels if existing ones were closed down. Following this evaluation we have lowered our

[4] The five are: 'penalties in avoidance cases' from March 2013, 'accelerated payments in follower cases' from December 2013, 'accelerated payments: extension to disclosed tax avoidance schemes and the GAAR' from March 2014, 'DOTAS regime changes' from December 2014 and 'accelerated Payments: extension' from March 2015. We excluded the sixth measure 'corporation tax: accelerated payments and group relief' which we evaluated last year and for which there is no significant change. This Autumn Statement has added another within 'HMRC: administration and operational measures'.

[5] We also evaluated two polices within the December 2013 measure 'HMRC: extending online services' but there was nothing significant to report.

estimate to £1.8 billion over the same period. This mainly reflects initial receipts being lower than we expected. The original estimate was for £1.2 billion yield by 2015-16, but the latest outturn estimate is £0.6 billion. Most of the receipts for the measure come in through self-assessment income tax, so more information will be available after the next SA payments are made in January and reported by HMRC in February. That information will remain subject to some uncertainty as it is difficult for HMRC to separate the receipts directly attributable to this measure from general returns;

- '**stamp duty on shares: schemes of arrangement**' – in December 2014 the Government announced a measure to tackle avoidance of stamp tax on shares by prohibiting the use of reduction of share capital in cancellation schemes of arrangement designed to implement takeovers of UK registered companies. These schemes of arrangement were a way of structuring a takeover so that no stamp tax would be paid. The original costing was sensitive to the number and regularity of very large takeovers, both of which are uncertain. It allowed for two behavioural effects. First, bringing forward or forestalling of some deals to avoid the legislation, which was due to take effect from March 2015. Second, allowing for alternative avoidance via an attrition assumption. At the time we gave this measure a 'medium-high' uncertainty rating and emphasised that the number of takeovers was the most uncertain element. Since this measure has come into effect, more takeovers than anticipated, including a number of large ones, have paid stamp duty, increasing the estimated yield. This also suggests the behavioural assumptions may have been overstated, although that cannot be discerned with confidence. The original estimate was to raise £285 million in total from 2015-16 to 2019-20, with £130 million in the first two years. In fact, it has already raised £600 million in the first two years and we have revised up our forecast for future receipts from this measure; and

- '**HMRC's use of the debt market integrator**' – this was announced in December 2014 as part of 'HMRC: operational measures' and was an extension to HMRC's debt collection agency programme, using the Cabinet Office-led debt market integrator (DMI) to market the recovery of debt owed to government. This was done by placing packages of debt across income tax, NICs, onshore corporation tax and VAT with the DMI. It was originally expected to raise £0.7 billion from 2014-15 to 2018-19. HMRC has informed us that performance for 2015-16 was close to expectations but that at the current level of funding it would be unable to meet all the planned placements. Yield for 2016-17 and 2017-18 has been lowered by a third as a result, so total yield across the original scorecard period is £0.3 billion lower than originally estimated.

B.27 We approached HMRC about a number of other measures and were told there was insufficient information to evaluate them at this time. These include the March 2013 measure on tackling '**offshore employment intermediaries**', its December 2013 counterpart targeting '**onshore employment intermediaries**' and the December 2014 measure '**self-incorporation: intangible assets**'. We will revisit these in next year's evaluation.

B.28 The Government has announced further anti-avoidance and compliance measures in recent Budgets and Autumn Statements. For many of these policies, the yield is only expected in the forecast period and we will evaluate them once they have come into effect. For example, much of the yield from the July 2015 evasion package comes in 2017-18. HMRC has provided us with updated information about the delivery of compliance measures and at this stage they remain broadly on track. In particular they now maintain a record of planned and actual recruitment for policy measures which they were able to share with us.

## Update on previous measures

B.29 We cannot review and re-cost all previous measures at each fiscal event (the volume of them being simply too great), but we do look at any where we are informed that the original (or revised) costings are under- or over-performing, and at costings that we have previously identified as subject to particular uncertainty.

### Policy reversals

B.30 Our forecast reflects four previously announced policies that the Government has cancelled, three of which it has shown on its scorecard and one that we have recorded as a non-scorecard policy measure:

- '**personal independent payment: aids and appliances**' – this measure, announced in the March Budget, would have cut disability benefits spending via a reduction in the entitlement points that would be awarded in PIP for cases involving the use of certain aids and appliances. Shortly after the Budget the Government announced that it would not be implemented. That decision costs £6.1 billion in total across the scorecard period (see Table B.2);

- '**pay to stay**' – this was announced in July 2015 and would have required social sector landlords – both local authorities and housing associations – to charge higher rents to households with income above a defined threshold. In March the Government announced that the policy would be less stringent by making it voluntary for housing associations and by introducing a taper to reduce how sharply rents would increase for those with income that exceeded the threshold. In this Autumn Statement the Government has abandoned the policy entirely. That costs £0.6 billion over the scorecard period (see Table B.2);

- '**employee shareholder status**' – in December 2012 the Government announced that the first £50,000 worth of shares received under an employee shareholder status arrangement – which involves the employee surrendering certain employment rights – would be exempt from capital gains tax (CGT) and in March 2013 extended this to exempt the first £2,000 of shares from income tax and national insurance contributions. In March 2016 the Government introduced a lifetime limit of £100,000 for the CGT element. The latest HMRC statistics show that take-up in 2013-14, the first seven months of the scheme, was just 230. That was well below the original estimate of 11,000 (which included 5,000 expected to go on to benefit from the CGT exemption). We have since lowered our steady state take-up assumption from 65,000 (including 30,000 benefiting from the CGT exemption) to 20,000, though this remains highly uncertain. Originally we expected these measures to cost £125 million in 2017-18, but that has been revised down to £20 million, though this reflects weaker equity prices as well as take-up. In this Autumn Statement the Government has announced it is cancelling the tax exemptions from new shares awarded under employee shareholders arrangements; and

- '**annuities: secondary market**' – this measure was announced in March 2015, but has now been cancelled. The Government has chosen not to put this measure on its scorecard. We discussed it in more detail in paragraph B.5.

## Policy delays

B.31 In order to certify costings as central, we need to estimate when – as well as by how much – measures will affect the public finances. Many of the Government's previously announced policy measures were subject to uncertainty over the timing of delivery, and a number have been subsequently delayed. These include:

- '**universal credit**' – for the fourth autumn forecast in succession we have needed to factor in the effects of the Government pushing back part or all of the UC rollout. This time it has pushed the start of the scaling up of natural migrations back by eight months to October 2017 and the managed migration process by another year, now due to end in March 2022. The succession of delays is shown in Chart 4.7. We first introduced UC into the forecast in March 2013. Over the three and a half years since then the rollout has been receded by around four years. Some of the knock-on effects of this delay include adjusting cuts to support for families making a new claim and delaying further cuts for families with more than two children and delaying the transfer of housing benefit paid to pensioners into a new housing credit in pension credit. We have decided to retain our assumption of a further 6-month contingency on the managed migration process, meaning that in our forecast it ends in October 2022. The effect of all these delays is uneven across years because it pushes back both savings and costs, the net effect of which differs from year to year. But overall they reduce marginal UC savings; and

- '**Royal Bank of Scotland (RBS) share sales**' – our March forecast included £21.5 billion of share sales between 2016-17 and 2020-21. The Chancellor has been reported as saying that further sales were *"not practical at the moment"* and that *"the right time to look at this again would be when those issues are set"*. On this basis, we have not included any RBS share sales in this forecast.

B.32 We have also received updates on a number of other policies including:

- '**making tax digital**' – HMRC has reported on progress in delivering this November 2015 measure. From the information available, it is broadly on track although it is still at an early stage. There was a four month referendum-related delay in HMRC issuing a consultation, but we have been reassured that this was allowed for in the contingency built into the timetable. Before certifying any measures of this nature, we routinely ask whether such contingencies have been included given past experience of delivery hurdles delaying their effects on the public finances. If the consultation leads to any changes in the policy, we will consider them in our next forecast;

- **'help to buy: ISA'** – this Budget 2015 measure allows first-time buyers to benefit from a 25 per cent government top-up when purchasing a first home, with restrictions on the value of the home and the amount that can be saved. We originally expected this to cost £2.1 billion from 2016-17 to 2019-20. Take-up has been lower than expected, around half that assumed in the original costing, with deposit levels also slightly lower than the allowable limits under the scheme. This reduces the expected cost to £1.2 billion from 2016-17 to 2019-20. Uncertainty remains around these assumptions;

- '**corporation tax: bringing forward payments for large groups**' – in the July 2015 Budget, the Government decided to bring the corporation tax (CT) payment date for large non-oil companies forward by four months from April 2017. In Budget 2016, it delayed the start of the policy to April 2019. With CT scored on a cash basis, this boosted receipts by £5.6 billion in 2019-20 and by £3.2 billion in 2020-21. In effect, the timing measure would have delivered a one-off boost to receipts on a cash basis – with the biggest boost in the surplus target year that applied in that Budget – without any change in underlying liabilities. On 21 October, the ONS announced that it would implement a new accruals methodology for CT early in 2017. CT is currently scored on a cash basis (when it is received by HMRC). The new approach would time-adjust cash receipts so that they more closely reflect when the economic activity that created the CT liabilities took place. Because of this, we have removed the effect of this measure on public sector net borrowing. As it will still affect the timing of cash payments, it continues to affect our forecasts for the public sector net cash requirement and public sector net debt;

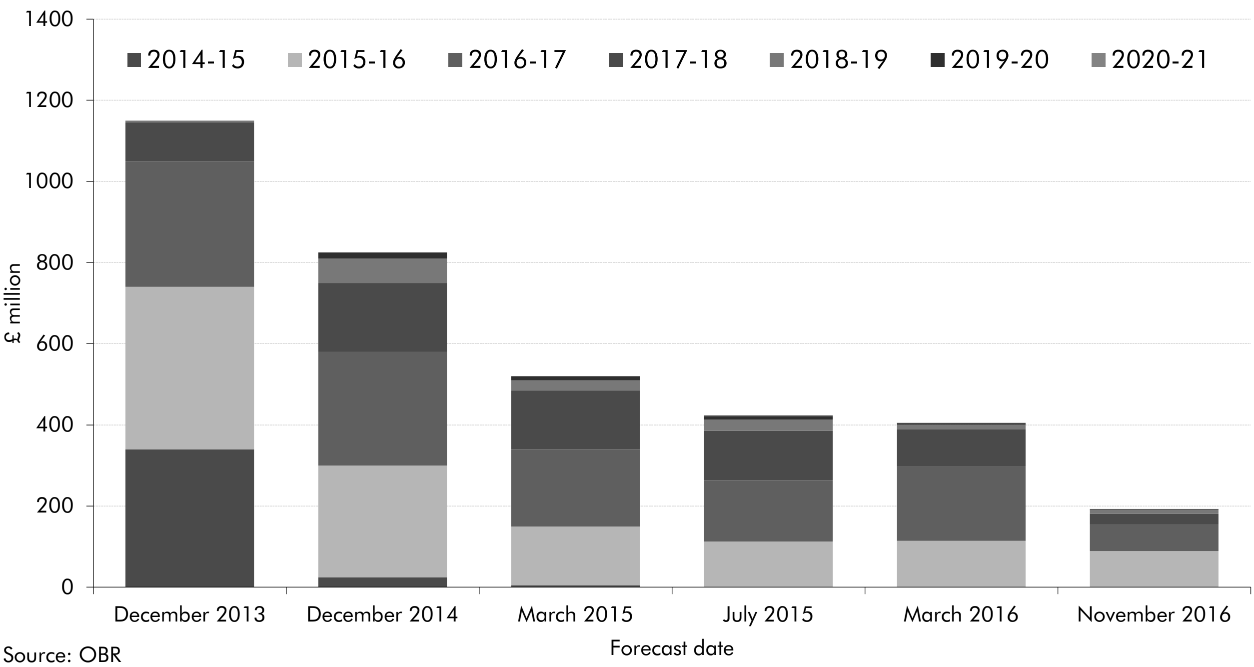
- '**stamp duty land tax: higher rates on additional properties**' – in November 2015, the UK Government pre-announced a 3 per cent SDLT surcharge on purchases of buy-to-let properties and second homes. It was due to raise £3.8 billion from 2016-17 to 2020-21. We gave this measure a 'high' uncertainty rating due to low quality data and the potential for a large behavioural effect. The measure came into effect on 1 April 2016, providing a four month window from announcement for buyers to bring forward transactions and avoid the surcharge. We did consider this behaviour when scrutinising the original costing but it seems likely we underestimated its size.[6] Despite this, receipts so far have been much higher than expected and we have increased our forecast by £3.1 billion (76 per cent). However, the measure allows taxpayers to claim a refund if they sell their main residence within three years and there remains uncertainty over the eventual size of these; and

  '**error and fraud additional capacity**' – in Autumn Statement 2013, the Coalition announced a tax credits policy that it called 'Error and fraud: additional capacity'

[6] More detail can be found in Mathews (2016): *Working Paper No 10: Forestalling ahead of property tax changes*.

(EFAC).[7] It involved using an external provider – the contract went to Concentrix – to provide additional resources to identify tax credits compliance interventions and was expected to save £1.1 billion over the five years to 2018-19. Since our March forecast, the contract with Concentrix has been terminated early and HMRC has temporarily redeployed over 600 of its own staff to complete the project. Our latest forecast has been adjusted to reflect the very high proportion of cases that are being overturned at the mandatory reconsideration stage and the effect on HMRC's business-as-usual activity caused by redeploying staff from other work. We now expect EFAC to have saved £0.2 billion by 2019-20 – £0.9 billion or around 80 per cent less and also later than originally assumed. As Chart B.4 shows, the overall shortfall reflects a succession of downward revisions since EFAC was announced. The other big changes include those in December 2014 (reflecting a delayed start date and lower productivity) and in March 2015 (reflecting further productivity falls).

Chart B.4: Savings from 'error and fraud: additional capacity'




Source: OBR

## Departmental spending

B.33 We do not scrutinise costings of policies that reallocate spending within departmental expenditure limits (DELs) or the DEL implications of measures that affect receipts or AME spending. Instead, we include the overall DEL envelopes for current and capital spending in our forecasts, plus judgements on the extent to which we expect them to be over- or underspent in aggregate.

B.34 In this Autumn Statement the Government has announced a significant increase in departmental capital spending, alongside other smaller changes in current spending. Past

[7] It was contained within the wider measure 'tax credits: improving collection and administration'.

experience suggests that planned increases in capital spending will not translate fully into actual spending in the year planned, so we have assumed that 20 per cent of each year's planned spending will actually be spent a year later.

B.35 For a number of recent forecasts we have asked the Treasury to provide assurance on the funding of a number of HMRC and DWP operational measures. For this forecast, we confirmed that these had been fully funded. And for this Autumn Statement, the Treasury has provided £160 million of funding to HMRC as part of the package 'HMRC: administration and operational measures'.

## Indirect effects on the economy

B.36 This Autumn Statement contains a number of policy changes that we have judged to be sufficiently large to justify adjustments to our central economic forecast. These include:

- fiscal policy – the Government has loosened fiscal policy between 2017-18 and 2020-21, largely reflecting increases in departmental current and capital spending. This has small effects on the profile of real GDP growth, adding 0.1 percentage points in 2017-18 and subtracting less than 0.1 percentage points a year thereafter;

- housebuilding and residential investment – there are a number of policies in the Autumn Statement that are likely affect housebuilding by housing associations (some positively and some negatively) and on surplus public sector land (bringing some activity forward into our forecast horizon). The overall effect is small, reducing residential investment growth by an average of 0.2 percentage points a year; and

- inflation – the Government has announced a number of policies that we expect to affect inflation. The latest freeze in fuel duty takes effect in April 2017, while the latest increase in insurance premium tax from 10 to 12 per cent takes effect in June 2017. These have small and partly offsetting effects, reducing CPI inflation by less than 0.1 percentage points in 2017-18.

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