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Mr Andrew Tyrie
Chairman
Treasury Committee
14 Tothill Street
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8 December 2014

Dear Andrew

RE: UNCERTAINTY RATINGS FOR POLICY COSTINGS

Thank you for your letter and for your interest in our assessments of the uncertainty surrounding the Autumn Statement policy costings, as shown in tables A1 and A2 in Annex A of the December *Economic and fiscal outlook* (EFO).

I attach additional information on the ratings for the other policy measures. We show the level of uncertainty for each of the three criteria – data, modelling and behaviour – and identify the most important of these for the overall ranking.

Best regards,
Robert

Robert Chote
Chairman

Table 1: Uncertainty rating criteria breakdown for Autumn Statement measures

Measure	Data uncertainty	Modelling uncertainty	Behavioural uncertainty	Of which: most important ¹	Final rating
1 Personal allowance: increase to £10,600 in 2015-16 with full gains to higher rate taxpayers	Medium-low	Medium-high	Medium-low	Data	Medium
2 ISAs: Transfer to surviving spouses	Medium	Medium-high	Medium-low	Data	Medium
3 Air passenger duty: exempting children	Low	Medium	Low	Data	Medium-low
4 Stamp duty land tax reform: new marginal rate system	Low	Medium-high	Medium-high	Modelling	Medium-high
5 Enveloped dwellings: increase charge for properties over £2m	Low	Medium-high	Medium	Behaviour	Medium
6 Employer NICs: abolish for apprentices under 25	Medium-high	Medium	Medium	Data	Medium-high
7 Business Rates: small business rate relief extension	Low	Medium-low	Low	Modelling	Medium-low
8 Business rates: cap increase at 2% in 2015-16	Low	Low	Low	Modelling	Low
9 Business Rates: increase retail discount to £1,500 in 2015-16	Low	Low	Low	Modelling	Low
10 Business rates: transitional relief	Medium-low	Medium-low	Medium-low	Modelling	Medium-low
11 Employment allowance: extend to carers	High	Low	Medium-high	Data	High
12 R&D tax relief: increase large firms and SME credit	Medium-low	Medium-low	Medium-low	Data	Medium-low
13 R&D tax relief: changes to qualifying expenditure	Medium	Low	Low	Data	Medium
17 Entrepreneurs' Relief: reinvested gains	Medium-low	Medium-low	Medium-low	Data	Medium-low
18 Social Investment Tax Relief	Medium-low	Medium-high	Medium	Modelling	Medium-high
19 Peer-to-peer lenders: bad debt relief	Medium	Medium	Medium-low	Modelling	Medium
21 Oil and gas: 2 per cent cut to Supplementary Charge	Medium-low	Medium-low	Medium-low	Modelling	Medium-low
22 Oil and gas: support for investment	Low	Low	Medium-high	Behaviour	Medium-high
25 Corporation tax: flood defence relief	Medium	Low	Low	Data	Medium
29 VAT: support for search & rescue and hospices	Medium-low	Low	Low	Data	Low
30 Diverted profits tax	Medium	Medium	Medium-high	Behaviour	Medium-high
31 Corporation tax: hybrids	High	Low	High	Behaviour	High
32 Corporation tax: country-by-country reporting	Medium-high	High	Very high	Behaviour	Very high
33 Corporation tax: accounting treatment of credit losses	Medium	Medium-high	Low	Data	Medium
34 Corporation tax: bank losses restriction	Medium	Very high	High	Modelling	Very high
35 Non-domiciles: increase remittance basis charge	Low	Medium-low	Medium	Behaviour	Medium
36 Self-incorporation: intangible assets	Medium	Medium-low	Medium	Behaviour	Medium
37 Investment managers' disguised fee income	Medium	Medium-high	Medium-high	Behaviour	Medium-high
38 Stamp duty on shares: schemes of arrangement	Medium-high	Low	Medium	Data	Medium-high

39	Special purpose share schemes	Medium-high	Medium-low	Medium	Data	Medium-high
40	Income tax: miscellaneous losses	Medium-high	Low	Low	Behaviour	Medium
41	Venture capital schemes: restrictions on use	Medium-high	Medium-low	Medium-high	Behaviour	Medium-high
42	Income tax: salary sacrifice and expenses, including umbrella companies	Medium-high	High	Very high	Behaviour	Very high
43	Office of Tax Simplification: review of expenses	Medium	Medium	Medium-low	Modelling	Medium
44	DOTAS regime changes	Medium-high	Medium-low	High	Behaviour	High
45	HMRC: Operational measures	Medium	Medium-high	Medium-high	Behaviour	Medium-high
46	Accelerated payments and group relief	Medium-high	Medium-low	Medium-high	Behaviour	Medium-high
48	Pensions flexibility: decisions since Budget 2014	Medium	Medium	Very high	Behaviour	Very high
51	Migrants access to benefits	Medium	Medium	Low	Data	Medium
53	Peer-to-peer lenders: withholding tax regime	Medium	Medium	Medium-low	Modelling	Medium
54	Public service pensions: next steps in revaluation	Medium-low	Medium	Medium	Modelling	Medium
57	Foreign exchange fines	Low	Low	Low	Data	Low

¹We take into account the relative importance of each source of uncertainty for each costing.

Table 2: Uncertainty rating criteria breakdown for Autumn Statement welfare cap measures

Measure	Data uncertainty	Modelling uncertainty	Behavioural uncertainty	Of which: most important ¹	Final rating
a Universal credit: updated delivery schedule	Low	Low	Medium-high	Behaviour	Medium-high
b Universal credit: supporting 85% of childcare costs	Low	Low	Low	Data	Medium
c Employment and support allowance: additional healthcare professionals	Medium	Medium	Medium	Behaviour	Medium
d Employment and support allowance: restricting repeat claims	Low	Medium-low	Medium	Behaviour	Medium
e Personal Independence Payment: updated delivery schedule	Low	Medium	Low	Modelling	Medium-low
f Pensions flexibility: notional income rules for benefits	Low	Low	Low	Data	Low
g Bereavement benefits reform	Medium-low	Medium-low	Low	Modelling	Medium-low
h Simplifying assessment periods	Medium	Medium	Medium-low	Data	Medium
i Work allowances: maintain current level in 2017-18	Medium-low	Medium-low	Medium-low	Data	Medium-low
j DWP fraud and error: additional capacity	Low	Medium	Low	Modelling	Medium
k DWP fraud and error: local authority incentive scheme	Medium	Medium	Low	Modelling	Medium
l Tax credits: prevent overpayments following change of circumstances in-year	Low	Medium-low	Low	Modelling	Medium-low
m Tax credits: self-employment tests for Working Tax Credit	Low	Medium	Medium-high	Behaviour	Medium-high
n Pension credit pass through	Low	Medium-low	Low	Data	Low
o Carer's allowance: higher earnings limit	Medium	Low	Medium-low	Data	Medium

¹We take into account the relative importance of each source of uncertainty for each costing.