A Autumn Budget 2017 policy measures

Overview

A.1 Our *Economic and fiscal outlook (EFO)* forecasts incorporate the expected impact of the policy decisions announced in each Budget or other fiscal statement. In the run-up to each one, the Government provides us with draft estimates of the cost or gain from each policy 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 this process is complete, the Government chooses which measures to announce and which costings to include in its scorecard. We choose whether to certify the costings as 'reasonable and central', and whether to include them – or alternative costings of our own – in our forecast.

A.2 In this forecast, we have certified as reasonable and central all the costings of tax and annually managed expenditure (AME) measures that appear in the Government's main policy decisions scorecard. Table A.2 reproduces the scorecard alongside our subjective view of the uncertainty around each costing. There are further details in Chapter 4 and in the Treasury's *Autumn Budget 2017 Policy costings document*, which briefly summarises the methodology used to produce each costing and the main areas of uncertainty within each.

A.3 The costings process worked reasonably efficiently, despite the very large number of policy decisions made in this Budget. While the number submitted just before the deadline was lower than in some previous large Budgets, the sheer number under consideration – as many as we have ever previously received – made the scrutiny process more challenging.

Policy decisions not on the Treasury scorecard

A.4 Our forecast includes the effect of a number of policy decisions that the Treasury has chosen not to present on its scorecard. These are reported in Table A.1. They include:

- **Excise duties uprating**: The Government has announced a change to the dates that RPI-linked duty rate rises will take place, aligning it with the new autumn timetable for Budgets. This affects the duties charged on fuel, alcohol and tobacco, as well as vehicle excise duty and air passenger duty. The changes were designed to be largely neutral for receipts. Absent other Budget measures, they would have increased receipts slightly due to the first-year effect of the changes, as shown in Table A.1. But the freeze in fuel and alcohol duties means that the vast majority of this effect on our pre-measures forecast was removed by the scorecard measures.

- **Probate fees**: In March we reported that the Government had announced plans to change the fees payable for an application for a grant of probate. From May 2017 the new rates were to increase to between £300 and £20,000, depending on the value of the estate. The structure of the fees was such that the Treasury expected the ONS to classify them as a tax in the National Accounts. We added around £0.3 billion to both our receipts and spending forecasts, as the new tax would be offset by lower negative spending in RDEL. We also lowered our inheritance tax forecast by around £30 million a year to reflect the incentive for individuals with estates valued close to the bottom of the thresholds in the new probate fee structure to reduce the value of their estates. But we did not sufficiently factor in forestalling ahead of the new fees being introduced, which boosted inheritance tax receipts. The legislation necessary to bring the new probate fees structure into effect has not yet been introduced into Parliament and the Government has not yet decided how or when to proceed. We have therefore removed the changes we made in our previous forecast in respect of this measure.

- **'Accelerated construction'** and **'starter homes'**: Changes announced to the affordable homes programme have moved capital spending out of 2017-18 and 2018-19 and into 2019-20 and 2020-21. The £2 billion of spending announced by the Prime Minister in October has been financed by reducing spending on 'accelerated construction' and 'starter homes' across the four years from 2017-18 to 2020-21.

- **'Staircase tax'**: The Government has announced that it will take steps to reverse the effect on business rates of the Supreme Court ruling on how units of property were assessed in multi-occupied buildings (sometimes described as the 'staircase tax'). In doing so, it intends to reinstate the previous practice of the Valuation Office Agency. Relative to taking no action, this will reduce receipts by around £40 million a year. Half the effect would be offset by reduced local authority self-financed expenditure. We have treated this as a non-scorecard policy measure.

- **Immigration skills charge**: This charge was introduced in April 2017 and is levied on public sector bodies and companies that employ skilled migrant workers from outside the European Economic Area. The ONS has confirmed that the charge will be treated as a tax in the public finances statistics. The revenue it raises will be offset by a broadly equivalent increase in spending, where the charge was previously treated as negative spending. We show the gross and net effects in Table A.1.

- **100 per cent business rates retention pilots**: The Government has announced an expansion for 2018-19 of the pilot for business rates retention in London, which is now planned to cover all the London boroughs as well as the Greater London Authority. The full policy, the rollout of which is subject to considerable timing uncertainty, is intended to be fiscally neutral by transferring some spending responsibilities to local authorities. The pilots are fiscally neutral by definition because they allow the pilot authorities to retain an amount of business rates equal to the reduction in central government grant funding. Table A.1 shows how this affects our expenditure forecast. The Government is still committed to introducing the full policy but has not yet made decisions on the details we require to include it in our central forecast.

- **VAT exempt research**: Changes in the EU's 'Markets in Financial Instrument Directive' mean broker dealers will have to charge for the research they provide to asset managers. At the moment, this research is bundled with the buying and selling of financial instruments that broker dealers carry out for asset managers' funds. As a financial service, this is exempt from VAT. This measure, which takes effect from January 2018, makes the charge for this research subject to the standard rate of VAT and is expected to raise around £40 million a year.

- **Network Rail 'Control Period 6' changes**: Decisions affecting Network Rail capital spending from 2019-20 onwards are described in Chapter 4.

- **Other non-scorecard DEL changes**: The numerous spending changes that are not reported on Treasury's scorecard are described in Chapter 4. In some instances these are neutral for borrowing – e.g. where they switch spending between DEL and AME – but in others they affect spending and borrowing.

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

		£ million					
	Head	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Probate fees	Receipts	-235	-290	-310	-330	-350	-375
	RDEL	+235	+290	+310	+330	+350	+375
Immigration skills charge	Receipts	+85	+90	+105	+115	+115	+120
	RDEL	-85	-90	-105	-115	-115	-120
Staircase tax	Receipts	-40	-40	-45	-45	-45	-45
	Current AME	+20	+20	+20	+20	+25	+25
Excise uprating changes	Receipts	+45	+130	+120	+120	+115	+110
Business rates pilots	RDEL	0	+775	0	0	0	0
	Current AME	0	-775	0	0	0	0
Network rail control period 6 changes	Capital AME	0	0	+95	+75	+50	+50
VAT exempt research	Receipts	+10	+40	+40	+40	+45	+45
Other non-scorecard DEL changes	RDEL	-1825	+275	-340	-675	+55	-250
	CDEL	+1280	+1615	-1050	-620	+925	0

Note: 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

A.5 In order to be transparent about the potential risks to our forecasts, we assign each certified costing a subjective uncertainty rating, shown in Table A.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 A.2: Treasury scorecard of policy decisions and OBR assessment of the uncertainty of costings

		Head	£ million						Uncertainty
			2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	
Housing and Homeownership									
1	Land Assembly Fund[3]	Spend	0	0	-220	-355	-355	-355	N/A
2	Housing Infrastructure Fund: extend[3]	Spend	0	0	-215	-710	-1,070	-1,185	N/A
3	Small sites: infrastructure and remediation	Spend	0	-275	-355	-120	0	0	N/A
4	Local Authority housebuilding: additional investment	Spend	0	0	-355	-265	-260	0	N/A
5	Stamp Duty Land Tax: abolish for First Time Buyers up to £300,000	Tax	-125	-560	-585	-610	-640	-670	High
6	Right to Buy for Housing Association tenants: pilot	Spend	0	0	-85	0	0	0	N/A
7	Council Tax: increase maximum empty home premium to 100%	Tax	0	0	0	0	+5	+5	Medium
National Health Service									
8	NHS: additional resource	Spend	-400	-1,900	-1,070	0	0	0	N/A
9	NHS: additional capital	Spend	-600	-420	-840	-1,020	-960	-360	N/A
Supporting families and working people									
10	Fuel Duty: freeze for 2018-19	Tax	0	-830	-825	-845	-865	-885	Medium-low
11	Alcohol Duties: freeze in 2018	Tax	-35	-225	-230	-230	-235	-240	Medium-low
12	Air Passenger Duty: freeze for long-haul economy flights and raise business class multiplier	Tax	0	0	+25	+25	+25	+30	Medium
13	Targeted Affordability Fund: increase	Spend	0	-40	-85	-95	-100	-110	Medium-low
14	Universal Credit: remove 7 day wait and extend advances to 100%	Spend	-20	-170	-205	-195	-160	-145	Medium-low
15	Universal Credit: run on payment for housing benefit recipients	Spend	0	-130	-125	-135	-110	-40	Medium-low
16	Universal Credit: in-work progression trials	Spend	*	*	*	-5	-5	0	N/A
17	Private rented sector access schemes: support for households at risk of homelessness	Spend	0	-10	-10	-	-	-	N/A
18	Disabled Facilities Grant: additional resource	Spend	-50	0	0	0	0	0	N/A
19	Relationship Support: continue programme	Spend	0	-5	-10	-	-	-	N/A

An economy fit for the future									
20	Domestic spending: preparing for EU Exit	Spend	0	-1,500	-1,500	0	0	0	N/A
21	National Productivity Investment Fund[3]	Spend	0	0	0	0	0	-7,000	N/A
22	Research and Development: NPIF investment[3]	Spend	0	0	0	0	-2,300	-	N/A
23	Research and Development: increase R&D expenditure credit to 12%	Spend	-5	-60	-170	-175	-170	-175	High
24	Oil and Gas: transferable tax history	Tax	0	+5	+20	+10	+10	+25	High
25	Patient Capital Review: reforms to tax reliefs to support productive investment	Tax	0	0	+45	+35	-15	-20	N/A
26	Innovation: Ultra Low Emission Vehicles: plug in car grant	Spend	0	-50	-50	0	0	0	N/A
27	Innovation: tech, AI, and geo-spatial data	Spend	0	-70	-75	-	-	-	N/A
28	Transport: accelerate capital investment for intra-city transport (Transforming Cities Fund)	Spend	0	-10	-240	-285	+525	-	N/A
29	Transport: additional investment in local roads	Spend	-55	0	0	0	0	0	N/A
30	Public Works Loan Board: new local infrastructure rate	Spend	0	*	-5	-5	-5	-5	N/A
31	Skills: National Retraining Scheme initial investment	Spend	0	-20	-45	-	-	-	N/A
32	Skills: investment in computer science teachers and maths	Spend	0	-30	-50	-	-	-	N/A
33	Skills: teacher premium pilot	Spend	0	-10	-15	-15	-5	0	N/A
34	Business Rates: bring forward CPI uprating to 2018-19	Tax	0	-240	-530	-525	-520	-520	Low
35	Business Rates: extend pubs discount to 2018-19	Tax	0	-30	0	0	0	0	Medium
36	Competition and Markets Authority: additional enforcement	Spend	0	-5	-5	+5	+15	+10	Medium
37	Aggregates Levy: freeze in 2018-19	Tax	0	-15	-10	-10	-10	-10	Low
38	HGV VED and Road User Levy: freeze in 2018-19	Tax	0	-15	-10	-15	-15	-15	Low
Avoidance, Evasion, Fraud and Error									
39	Avoidance and Evasion: additional compliance resource	Tax	-10	+10	+170	+585	+580	+740	Very high
40	Corporation Tax: tackle related party step up schemes	Tax	+15	+45	+45	+45	+45	+45	Very high
41	Corporation Tax: depreciatory transactions	Tax	+5	+10	+10	+10	+10	+10	Medium-high
42	Royalty payments made to low tax jurisdictions: withholding tax	Tax	0	0	+285	+225	+160	+130	High
43	Online VAT fraud: extend powers to combat	Tax	0	+10	+20	+40	+50	+45	Very high
44	Offshore Time Limits: extend to prevent non-compliance	Tax	0	*	*	*	+5	+10	High
45	Carried Interest: prevent avoidance of Capital Gains Tax	Tax	0	+20	+170	+165	+150	+145	High
46	Insolvency use to escape tax debt	Tax	0	-5	+70	+135	+150	+150	High
47	Dynamic coding-out of debt	Tax	0	0	+55	+30	+20	+20	Medium-high
48	Construction supply chain VAT fraud: introduce reverse charge	Tax	0	0	+90	+135	+105	+75	Very high
49	Waste crime	Tax	0	+30	+45	+45	+50	+45	High
50	Fraud, Error, and Debt: greater use of real-time information	Spend	0	+85	+75	+65	+40	+40	Medium-high

A fair and sustainable tax system									
51	Corporation Tax: freeze indexation allowance from January 2018	Tax	+30	+165	+265	+345	+440	+525	High
52	Capital Gains Tax: extend to all non-resident gains from April 2019	Tax	+5	+15	+35	+115	+140	+160	High
53	Non-resident property income: move from Income Tax to Corporation Tax	Tax	0	0	0	+690	-310	-25	Medium-high
54	Capital Gains Tax payment window reduction: delay to April 2020	Tax	0	0	-1,200	+950	+235	+10	Medium
55	VAT registration threshold: maintain at £85,000 for two years	Tax	0	+15	+55	+105	+145	+170	Medium-high
56	Tobacco Duty: continue escalator and index Minimum Excise Duty	Tax	+45	+35	+40	+45	+40	+35	Low
Other public spending									
57	Adjustments to DEL spending	Spend	+1,000	0	-1,135	0	0	0	N/A
58	Official Development Assistance: meet 0.7% GNI target	Spend	0	+375	0	0	0	0	N/A
59	Scotland police and fire: VAT refunds	Tax	0	-40	-40	-40	-45	-45	Medium-low
Air Quality									
60	Air Quality: increase Company Car Tax diesel supplement by 1ppt from April 2018	Tax	0	+70	+35	-30	+130	+90	Medium-high
61	Air Quality: First Year Rate increased by one VED band for new diesel cars from April 2018	Tax	0	+125	+50	+10	*	*	Medium-high
62	Air Quality: funding for Air Quality Plan and Clean Air Fund	Spend	-20	-180	-215	-80	-	-	N/A
Previously announced policy decisions									
63	Tuition Fees: raise threshold to £25,000 in April 2018	Tax	0	-50	-100	-175	-235	-295	Medium-low
64	Tuition Fees: freeze fees in September 2018	Tax	0	-5	-15	-25	-35	-45	Medium-low
65	Oil and Gas: funding for UK continental shelf exploration projects	Spend	0	-5	0	0	0	0	N/A
66	NICs: maintain Class 4 NICs at 9% and delay NICs Bill by one year	Tax	-10	-125	-645	-685	-565	-525	Medium-high
67	Making Tax Digital: only apply above VAT threshold and for VAT	Tax	*	*	-65	-245	-515	-585	High
68	City Deals: Swansea and Edinburgh	Spend	0	-30	-30	-30	-	-	N/A
69	Social rented sector: maintain current rent policy without Local Housing Allowance cap	Spend	0	0	-155	-205	-255	-320	Medium-high
TOTAL POLICY DECISIONS			**-230**	**-6,045**	**-9,915**	**-3,315**	**-2,960**	**-2,520**	

**negligible*

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

[2] At Spending Review 2015, the government set departmental spending plans for resource DEL (RDEL) for the years up to and including 2019-20, and capital DEL (CDEL) for the years up to and including 2020-21. Where specific commitments have been made beyond those periods, these have been set out on the scorecard. Where a specific commitment has not been made, adjustments have been made to the overall spending assumption beyond the period.

[3] These figures do not feed into the Total policy decisions line. In 2021-22 and 2022-23, funding for these measures has been allocated from the aggregate total for capital spending. This includes the National Productivity Investment Fund. The NPIF will extend into 2022-23 at £7bn in that year.

An example of assigning uncertainty rating criteria

A.6 Table A.3 shows the detailed criteria and applies them to a sample policy measure from this Budget: '**Research and Development: increase R&D expenditure credit to 12%**'. This measure increases the corporation tax relief that companies can claim on qualifying R&D expenditure by raising the rate of R&D expenditure credit from 11 to 12 per cent. This policy is expected to cost £60 million in 2018-19 and an average of £170 million a year from 2019-20 onwards. Against each uncertainty criterion:

- **Behavioural**: This is the most important source of uncertainty in this costing. Given the relatively small change in the relief rate, we have not adjusted our overall business investment forecast for this measure. But it is likely to induce higher qualifying R&D expenditure. Some of that is likely to be additional, while some may displace other investment or reflect efforts to get other investment badged as R&D. The behavioural estimate in the costing is based on a recent HMRC evaluation.[1] It notes that the central estimate lies within a wide range. We consider this a 'high' source of uncertainty.

- **Modelling**: Outturn qualifying expenditure has been relatively volatile in recent years, having been affected by both policy and real-world changes. These relationships cannot be easily modelled, so there are many factors that may not be captured in the costing. We consider this a 'high' source of uncertainty.

- **Data**: The main data for this costing are based on HMRC's corporation tax returns. The data give a broadly reliable indication of businesses' qualifying R&D expenditure, but are subject to two key sources of potential inaccuracy. Not all claims for relief are submitted via tax returns, which could underestimate R&D expenditure. But of those claims submitted through tax returns, some will ultimately not qualify for the relief, which could overestimate expenditure. These two effects work in opposite directions, but may not offset fully. We consider this a 'medium' source of uncertainty.

Taking all these judgments into account, we gave the costing an overall rating of 'high'.

[1] *Evaluation of Research and Development Tax Credit*, HM Revenue and Customs, 2015.

Table A.3: Assigning uncertainty rating criteria to 'Research and Development: increase R&D expenditure credit to 12%'

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

A.7 Using the approach set out in Table A.3, we have judged 15 measures in the scorecard to have 'high' or 'very high' uncertainty around the central costing. Together, these represent 22 per cent of the scorecard measures by number and 20 per cent by absolute value (in other words ignoring whether they are expected to raise or cost money for the Exchequer). Of these highly uncertain measures, two have an Exchequer cost (which totals £3.9 billion over the forecast period) while 13 have an Exchequer yield (which totals £6 billion).

HMRC operational measures

A.8 The Government has announced a package of measures designed to generate additional revenue from HMRC compliance activity. The various components were combined into the single line of the scorecard: '**Avoidance and Evasion: additional compliance resource**'. As we have previously set out, the costing of these type of measures is often subject to a high degree of uncertainty. While we only certify measures that we judge to be reasonable and central, efforts to tackle avoidance and evasion have not always brought in the expected yield.[2] The measures often target a subset of individuals or companies that are already actively changing their behaviour to avoid or evade tax. As a result there is typically a high degree of behavioural uncertainty. Similarly, since the measures are directed at uncollected tax, there is usually less reliable data available to inform the costing. And there are often uncertainties relating to the timely delivery of operational changes, especially when they rely on new IT systems (see paragraph A.20).

A.9 Scrutinising this package of measures brought about some further challenges. The approach HMRC takes to measuring compliance yield does not map directly onto the National Accounts receipts definitions used in the Government's fiscal targets and that we therefore forecast. This makes it difficult to distinguish what is relevant to our forecast with any precision. Another challenge was determining whether the yield from this package would be additional to that already captured in previously announced measures. In particular the large July 2015 package of HMRC measures has yet to become fully effective, so we needed to assure ourselves that the yield in our baseline forecast in respect of previous measures was not being factored into these new measures too.

A.10 To overcome some of these challenges we looked at HMRC's past compliance performance. For example, we considered the progression of HMRC's estimates of the tax gaps for the different taxes, groups of taxpayers and activities targeted by this package. This allowed us to consider top-down whether the expected yield from different elements of the package was reasonable relative to the types of activity the Government each seeks to tackle. We also looked at the returns to investment for the July 2015 package of measures and how they compared to the current package. For most, we expected to see diminishing returns from additional investment and challenged those costings where that had not been assumed. We required each costing to show that appropriate contingencies were in place for delays in recruitment and for training lags. Where staff were being redeployed from elsewhere within HMRC we asked for an appropriate opportunity cost to be incorporated.

A.11 We assign this package of measures a 'very high' uncertainty rating, with each of data, behaviour and modelling also classed as 'high' or 'very high'. For some elements, such as those targeting the hidden economy or criminals, the level of uncertainty is very high. We will continue to evaluate the performance of these and previous anti-avoidance and evasion measures on a regular basis. This Budget has continued the recent pattern whereby the yield from revenue-raising measures is concentrated in these more uncertain areas while the cost of the tax giveaways is far more certain.

A.12 The remaining measures subject to a 'very high' or 'high' uncertainty are:

- **'Corporation Tax: tackle related party step up schemes'**: This anti-avoidance measure seeks to address the use of 'step-up' schemes that enable a company to 'sell' or licence an intangible asset to a related company that 'pays' for the asset by issuing shares. As there has not been a transfer of legal ownership the seller does not have to

[2] See for example Chapter 5 in our 2017 *Fiscal risks report* and Johal, *Evaluation of HMRC anti-avoidance and operational measures*, OBR Working Paper No.11, both available on our website.

declare this as a taxable profit but the buyer can record it as an expense. This artificially suppresses their tax liability. The main uncertainty is around data, particularly the number and value of identified past cases that are used to project the relevant tax base. As with most anti-avoidance measures, there is also considerable uncertainty over the potential size of the behavioural response. We assign this costing a 'very high' uncertainty rating.

- **'Online VAT fraud: extend powers to combat'**: This measure applies to VAT due on online sales and follows a similar previous measure described in paragraph A.25. It makes online marketplaces 'jointly and severally liable' for unpaid VAT from sales that take place on their platform from both UK and overseas sellers. The costing allows for a large behavioural response. Many of the sellers that are affected are likely to be replaced by others, while some will restructure their operations through alternative countries or set up as new companies. As with most measures targeting uncollected tax, there is significant data uncertainty. The tax base cannot be precisely estimated and requires uncertain assumptions and judgement to reach a central estimate. The uncertainties over data and behaviour have meant the use of a multi-step modelling approach that has had to rely on a number of assumptions. Each aspect of this costing is uncertain and we assign it a 'very high' uncertainty rating overall.

- **'Construction supply chain VAT fraud: introduce reverse charge'**: This measure seeks to counter construction sector fraud by introducing a reverse VAT charge in the industry. This will prevent businesses in a supply chain from being able to charge VAT but abscond before paying it to HMRC. The reverse charge means that all but the final business customer in a supply chain are liable to account for the VAT rather than the supplier. The data underpinning this costing are highly uncertain. The estimate of the relevant tax base was derived from aggregate ONS data on the construction sector, relying on multiple uncertain assumptions and judgements that overlap with uncertainties around the modelling. There are some behavioural uncertainties and the costing allows for some attrition. Overall, we assign it a 'very high' uncertainty rating.

- **'Insolvency use to escape tax debt'**: When setting up a new business, individuals that HMRC deems to be at risk of declaring future insolvency as a means of avoiding tax can be asked to pay a security deposit to HMRC, which is returned subject to compliant behaviour. This measure extends those powers to corporation tax and the construction industry scheme. The behavioural response is particularly uncertain as it applies to individuals with a history of avoidance. Some of the yield is generated by encouraging more compliant behaviour by individuals faced with the potential loss of the deposit and subsequent legal action. This measure receives a 'high' uncertainty rating.

- **'Corporation Tax: freeze indexation allowance from January 2018'**: When businesses dispose of an asset corporation tax is due on any gain in its value. Indexation allowance reduces their liability by relieving gains accounted for by inflation. This measure freezes the allowance so that inflation-driven gains beyond January 2018 will not attract relief. The key uncertainty in this costing relates to the data, for which we assign a 'very high' rating. Indexation allowance is often not recorded in tax returns, so the costing relies on just those cases where it has been. This is a relatively small sample and there is a risk that it does not reliably reflect the wider use of the allowance. To try to overcome this, the costing required a number of assumptions that also increase the level of modelling uncertainty. Overall, this measure receives a 'high' uncertainty rating.

- **'Waste crime':** This measure provides additional powers and resources, to HMRC and the Environment Agency respectively, to collect tax from illegal waste sites and generate additional landfill tax and VAT receipts. The most uncertain element is the behavioural response. The yield depends on the effectiveness of additional operations against illegal waste site operators that have already shown they are willing to evade tax, so are likely to seek ways around these efforts to make them compliant. There is also, unsurprisingly, a 'high' level of uncertainty over the availability of data about these criminal activities. The measures are only expected to clear a small proportion of the existing stock of illegal waste. This receives a 'high' uncertainty rating.

- **'Stamp Duty Land Tax: abolish for First Time Buyers up to £300,000'**: This allows first-time buyers purchasing houses under £500,000 to claim a relief on their stamp duty land tax (SDLT) (see Box 4.3 for more detail). The main uncertainty is around behaviour, which we assign a 'high' rating. The costing assumes a small number of additional first-time buyer purchases (around 3,500) but that these will displace other purchases by those who would have bought and paid the main rate of SDLT and, in some cases, the additional properties surcharge. It is also possible that non-first-time buyers will abuse the relief. The measure is expected to increase house prices. It receives a 'high' uncertainty rating.

- **'Royalty payments made to low tax jurisdictions: withholding tax':** This expands the scope of the existing royalty withholding tax rules to cover royalties and other similar payments that are connected with sales to UK customers. This responds to the difficulties encountered in a similar previous measure, as explained in paragraph A.23. There is particular uncertainty around both data and behavioural response. The data uncertainty is due to the small number of cases known to HMRC and the difficulty in identifying payments between two overseas entities that may be within scope of the measure. For behaviour, the costing assumes a high level of attrition to reflect the different ways that businesses may respond to reduce their withholding tax liability. We give this a 'high' uncertainty rating.

- **'Making Tax Digital: only apply above VAT threshold and for VAT':** This measure delays the previously announced HMRC initiative around interacting digitally with taxpayers by introducing software that will design out record-keeping errors in tax returns. As with the original measure both the behavioural response and operational delivery are uncertain. In terms of behaviour, this relates to the extent to which the software will prevent errors by taxpayers. In terms of delivery, HMRC has told us that it was broadly on track to deliver to the original timetable, but given its scale, we still consider it to be challenging. This package receives a 'high' uncertainty rating.

- **'Carried Interest: prevent avoidance of Capital Gains Tax'**: This measure responds to avoidance schemes designed to circumvent a previous measure described in paragraph A.23. It levies a CGT charge on the gains made by certain private equity and hedge fund managers. There is particular uncertainty around both the tax base and the behavioural response to the policy. The tax base has been imputed from external sources rather than HMRC administrative data. As we saw with the previous measure, this group of taxpayers has consistently shown a willingness to use aggressive avoidance strategies so the costing allows for a significant behavioural adjustment. Overall, we assign it a 'high' uncertainty rating.

- **'Capital Gains Tax: extend to all non-resident gains from April 2019'**: This measure taxes gains made by non-UK residents disposing of UK immovable property, whether the disposal is made directly or indirectly via a non-trading company. It relies on projecting a highly uncertain tax base estimate, in particular indirect disposals via non-trading companies. These disposals are currently not captured in HMRC's property transactions databases. There is also considerable uncertainty over behaviour, with a number of possible responses that affect the costing. This measure receives a 'high' uncertainty rating.

- **'Oil and Gas: transferrable tax history'**: This measure provides extra decommissioning tax relief to some purchasers of North Sea oil and gas assets, by allowing some access to ring-fenced corporation tax history related to the asset. It is due to take effect in November 2018. The measure will increase the value of some assets, which should raise investment and eventually production in the North Sea. Given the lags between investment and production, the majority of any receipts effect would be expected to occur beyond our forecast horizon. The measure raises £25 million in 2022-23. The underlying tax base is volatile and the behavioural response to these relatively complex tax changes is uncertain. We have assigned this measure a 'high' uncertainty rating.

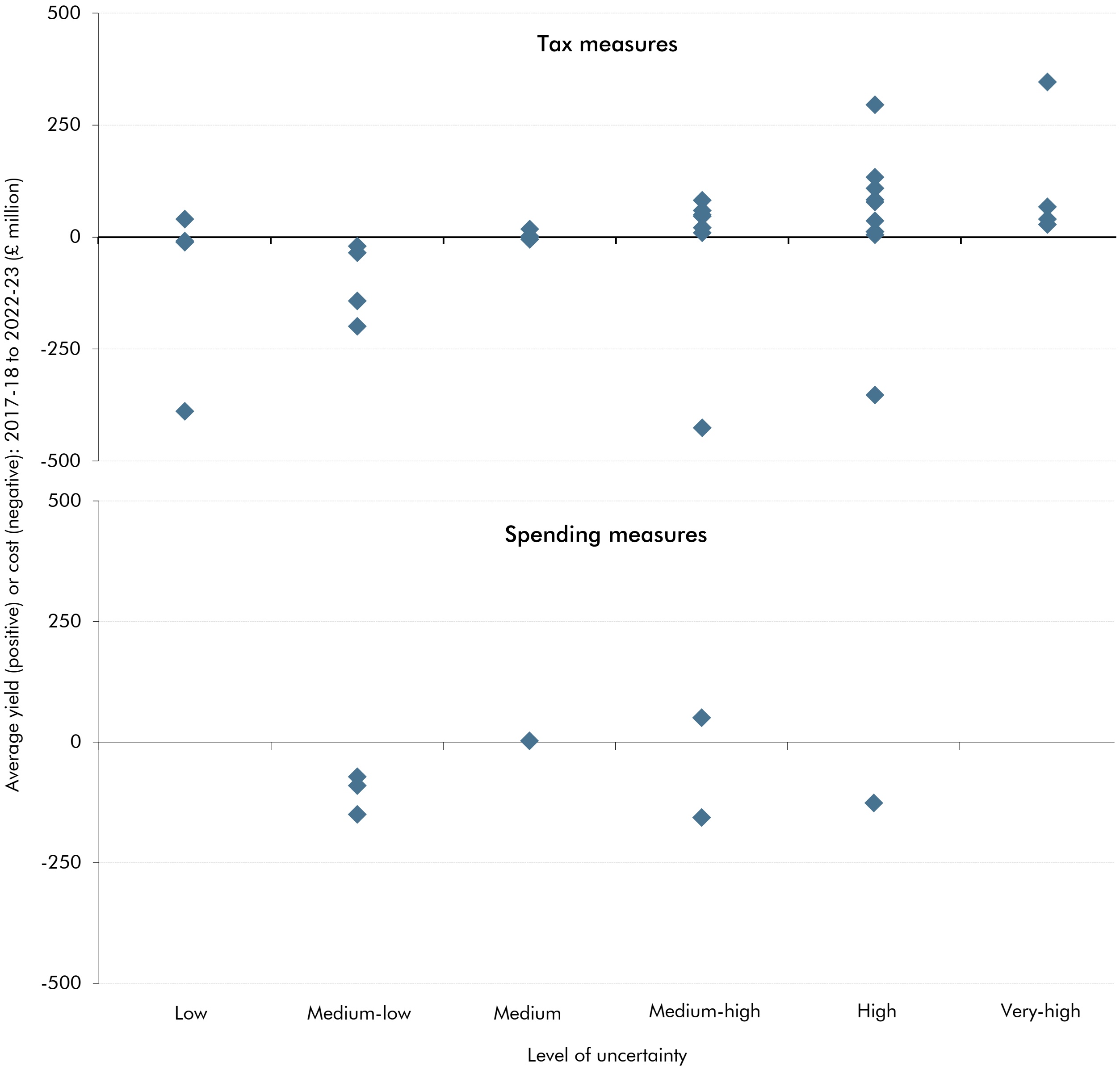
- **'Offshore Time Limits: extend to prevent non-compliance':** This measure extends the time that HMRC is permitted to assess tax in cases involving offshore income, assets and structures. As with most offshore evasion and avoidance measures, estimating the current amount of tax lost and predicting the behavioural response of a group that are already changing their behaviour to avoid paying tax is hugely uncertain. With little firm information available, modelling these effects can be highly complex. This measure receives a 'high' uncertainty ranking.

- **'Research and Development: increase R&D expenditure credit to 12%'**: This is described in paragraph A.6.

A.13 We have judged 21 scorecard measures to have between 'medium-low' and 'medium-high' uncertainty around the central costing, with a further four having 'low' uncertainty. That means that 30 per cent of the Budget scorecard measures have been placed in the medium range (26 per cent by absolute value) and 6 per cent have been rated as low (just 4 per cent by absolute value).

A.14 Chart A.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 than the tax measures, while those measures cutting taxes typically have lower uncertainty ratings than those raising taxes. 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. This pattern has been apparent in most recent fiscal events and, as we noted in our *Fiscal risks report*, is considered an ongoing fiscal risk.

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



Longer term uncertainties

A.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 effect 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. Those with longer-term effects worth noting include:

- **'Tuition Fees: raise threshold to £25,000 in April 2018'** and **'Tuition Fees: freeze fees in September 2018'**: The largest effects on borrowing from these measures – in particular the change to the repayment threshold – will occur 30 years after loans are extended on the new terms. At this point, any outstanding balance is written off, adding to public spending. These effects are explained in Chapter 4.

- **'Tobacco Duty: continue escalator and index Minimum Excise Duty'**: This measure reinstates the RPI plus 2 per cent escalator on tobacco duty and an additional 1 per cent rise in duty rates on hand-rolling tobacco. It also introduces an indexation element to the minimum excise tax for tobacco. While the measure is revenue raising as a whole, for cigarettes the costing suggests that future rate increases will actually reduce receipts, which would be consistent with the duty rate rising beyond its revenue-maximising level.

Small measures

A.16 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.

A.17 By definition, any costings that meet all these conditions will have a maximum uncertainty rating of 'medium'.

A.18 A good example of a small measure announced in this Budget is the '**HGV VED and Road User Levy: freeze in 2018-19**' measure. Vehicle excise duty rates are forecast to increase by RPI inflation, but the duty rate for heavy goods vehicles (HGVs) has remained frozen since 2001. This measure freezes vehicle excise duty rates for HGVs for another year. It is expected to cost around £10 million a year. The costing uses good quality data based on a stock of relevant vehicles. The modelling is straightforward and has been applied repeatedly. It involves multiplying the stock of HGVs by the difference between the current rate and the counterfactual rate if it were increased by RPI inflation. Behaviour is considered to have a negligible impact as the change in rate will make up a very small proportion of the running costs for the full stock of HGVs. Given the regularity with which the freeze is extended each year, it is not considered a contentious measure.

Update on previous measures

A.19 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.

HMRC digital initiatives

A.20 HMRC is pursuing a number of digital initiatives that are expected to have a bearing on our forecast. The largest of these is 'Making tax digital', for which we have so far only reflected those elements that we feel are sufficiently clearly specified to quantify in specific years. Estimating the yield from these measures involves a number of steps that are typically subject to high degrees of uncertainty, notably delivery schedules, the effectiveness of IT and the response of taxpayers to operational changes. Despite requiring evidence of contingency margins in delivery plans and seeking to squeeze out optimism bias before such costings are certified, we continue to be informed of delays and other issues that mean the yield from these policies will be lower and/or later than assumed. The latest include:

- **Making tax digital**: In Autumn Statement 2015 the Government announced an HMRC initiative to interact digitally with small businesses across income tax, corporation tax and VAT, working with the private sector to introduce software that will design out record-keeping errors in taxpayers' returns. This was expected to yield significant amounts from 2018-19 onwards. In our March *EFO* we highlighted two policy changes – a concession on the use of spreadsheets and a one-year delay (from April 2018 to April 2019) to the implementation of the self-assessed income tax element for businesses and landlords with a turnover below £83,000. At this Budget, the Government has delayed the mandated use for income tax further to at least April 2020. Table A.2 shows the cost of this delay across the forecast.

- **Putting inheritance tax online for customers and agents**: announced in Autumn Statement 2013 as part of 'HMRC: extending online services', this was originally expected to go live in October 2015, with full coverage from March 2016. It was first delayed until March 2017, then further to August 2017. HMRC has told us that phase 2 – the revenue generating phase – has been 'paused indefinitely'. We have removed all yield attributed to this measure from our forecast.

- **Allowing charities to register jointly with HMRC and the Charity Commission**: Another element of the 'HMRC: extending online services' measure, this was due to be implemented from 2015-16, but was delayed to April 2017. HMRC considers this to remain 'work in progress', but with no firm end date. Once again, we have removed all yield from this measure in our forecast.

- **Digital disclosure service**: Part of the July 2015 policy 'hidden economy', this was intended to allow taxpayers to disclose unpaid tax of any type. The yield-generating element has been scrapped and HMRC is looking into an alternative. This too has been revised down to zero yield.

Policy reversals

A.21 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:

- **Class 4 NICs**: In the Spring Budget earlier this year the Government announced an increase to the main rate of Class 4 NICs from 9 to 10 per cent in 2018-19 and then to 11 per cent from 2019-20. This decision was reversed just days later, at an annual average cost to the Exchequer of £0.5 billion.

- **Local housing allowance caps**: The Government announced in Autumn Statement 2015 that it would reduce the eligibility to housing benefit and universal credit housing support for those in the social-rented sector by capping their awards to the local housing allowance rates that apply in the private sector. This was to take effect from April 2018 but was delayed by one year at Autumn Statement 2016. It has now been abandoned completely with the associated costs shown in Table A.2.

- **'Accelerated construction' and 'starter homes'**: the changes to these spending commitments is set out in paragraph A.4.

- **Probate fees**: the decision not to proceed with the higher fees announced in February is described in paragraph A.4.

Policy delays

A.22 In order to certify costings as central, we need to estimate when – as well as by how much – measures will affect the public finances. As we have set out in previous *EFOs*, many of the Government's announced policy measures do not meet the timetable factored into the original costings – even where we have required greater contingency margins before certifying the measure. This continues to pose a risk to our forecast. The policy delays we have been notified about in this Budget include:

- **Abolition of Class 2 NICs**: This measure, which affects the self-employed, was announced at Budget 2016 and was due to begin from April 2018. The relevant legislation was postponed due to the election, but has now been pushed back further. The Government has therefore announced that the abolition will not take effect until April 2019. The effect of this is a revenue gain of £0.4 billion in 2018-19.

- **NICs on termination payments**: This is part of another Budget 2016 measure "*removing employer tax advantage*" by applying NICs to termination payments over

£30,000. It has been delayed by one year to April 2019. The effect of this is a revenue loss of £0.2 billion in 2018-19.

- **Capital gains tax payment window for residential property**: This November 2015 measure changed the payment method for CGT due on residential property disposals. From April 2019, taxpayers would have had to pay within 30 days of a transaction taking place, instead of the existing requirement to pay through self-assessment, which is usually more than a year later. The original measure provided a one-off boost to receipts in 2019-20 and 2020-21. It has now been delayed by one year, meaning a larger boost to 2020-21 receipts of £1 billion, at the expense of receipts in 2019-20. In both cases there is no change to underlying tax liability. If the ONS were to choose to follow the approach it now takes to recording corporation tax receipts and record CGT receipts closer to an accruals rather than a cash basis, then the effect of these two measures would in effect be zero. This in turn would reduce headroom against the Government's fiscal target in 2020-21 by almost a tenth.

- **Manchester city deal**: In Spending Round 2013, the Coalition Government announced the 'Manchester city deal' with an expected cost of £300 million. This fiscal cost reflected the amount Greater Manchester was expected to borrow to finance transport projects and was spread across 2016-17 and 2017-18. The Government's latest estimate, which we have factored into this forecast, is that the cost will be much lower, just £80 million, and will occur much later, being completed in 2020-21.

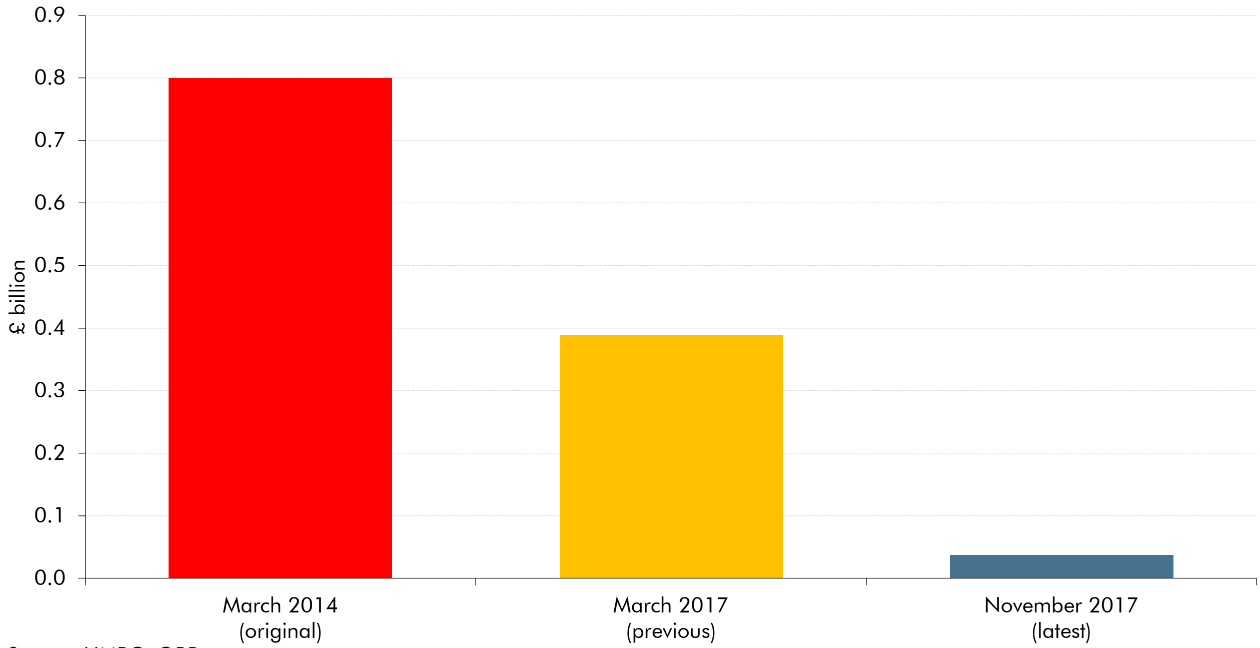
- **Right to buy pilot for housing associations**: The Government has committed to expanding 'right to buy' to tenants of housing associations. A small pilot scheme was due to run from January to May 2016 but was delayed to July due to the process of applications taking longer than expected and there being a longer lag between issuing instructions to solicitors and completions being achieved. A larger pilot was announced in Autumn Statement 2016 and was due to begin in April 2017. This did not take place. It has instead been replaced by a new pilot announced at this Budget, due to run for one year from July 2018. The associated costing is shown in Table A.2.

- **Personal independence payment**: DWP has pushed back the point at which it expects to complete the rollout of personal independence payment by nine months to June 2019, nine years after the decision to "*introduce the use of objective medical assessments*" for disability benefits was announced and four years after it was initially planned to be fully rolled out. The latest delay was prompted by concerns about the capacity of DWP's two private contractors to deliver reassessments in a timely and consistent manner. It is expected to ease providers' capacity constraints but also to reduce the pace of new assessments. This has little effect on our forecast because the personal independence payment has not proved to reduce spending relative to disability living allowance that it is replacing.

- **Tax-free childcare**: Originally announced in Budget 2013, tax-free childcare (TFC) was to be launched in autumn 2015. The existing employer-supported childcare, which affects our income tax forecast, was due to close to new entrants at the same time. In

2015 the TFC launch was delayed by 18 months following a legal challenge to the Government's decision to deliver the scheme through NS&I. At Budget 2016 the Government opted for a more gradual roll out. At the Spring Budget, it pushed the start date back further – to April 2017 – and we assumed that the pace of take-up would be slower than we had assumed previously. In the event, take-up so far this year has been even lower than we assumed in March – just a 30,000 caseload instead of 415,000 by October 2017. The Government has also decided to delay the start date for older children, so TFC will not be rolled out fully until April 2018. We have assumed a slower pace of take-up than we did in March. The effect of the latest changes on our welfare spending forecast are described in Chapter 4. When TFC was originally announced, our forecast extended to 2017-18 and TFC was expected to cost £0.8 billion in that year; our latest forecast is £37 million, as shown in Chart A.2.

Chart A.2: Forecast expenditure for tax-free childcare in 2017-18



Source: HMRC, OBR

A.23 We have also received updates on a number of other policies including:

- **Alcohol fraud and evasion**: At Autumn Statement 2013 the Government announced **'alcohol fraud: wholesaler registration'**, which led to the alcohol warehouse registration scheme that came online in April 2017. This was followed in Summer Budget 2015 by '**tackling illicit tobacco and alcohol**', which sought to enhance HMRC's intelligence about criminal activity in these sectors and increase its operational capacity. For both measures, we highlighted the considerable uncertainties associated with estimating the level of illicit activity and anticipating potential behavioural responses. Collectively the measures were expected to yield £280 million in 2017-18, but this has been revised down to £145 million. The reduction is mainly due to HMRC data showing less illicit activity, both by wholesalers and organised crime groups, than was originally estimated. For the latter, HMRC believes this is largely due to its ongoing operational activity deterring the supply of illicit alcohol by more than had been assumed. If that is the case then the reported yield from these measures may be understated as the benefit of that operational activity will be reflected in the outturn data that underpins our baseline forecast. We will revisit this issue in a future evaluation of these costings.

- **Voluntary NICs**: In March 2014 the Government announced it was introducing a time-limited opportunity for eligible pensioners to buy extra units of state pension with lump-sum 'Class 3A' NICs, on a voluntary basis. It was open for 18 months from October 2015 to April 2017. The costing was heavily dependent on highly uncertain assumptions about take-up, as we highlighted in our *EFO* at the time. The original measure assumed take-up would be 265,000, with £870 million of NICs payments expected in total, leading to higher state pensions spending over the longer term. In the event, take-up was around 13,000, just 5 per cent of the original assumption. Even though the average payment of around £17,000 was much higher than the £3,200 assumed in the costing, only £225 million was received in NICs payments. We will carry out a fuller evaluation of the reasons for this large shortfall next year.

- **Soft drinks industry levy**: This Budget 2016 measure was originally due to raise £520 million when introduced in 2018-19. This was subject to considerable uncertainty over the behavioural responses of both consumers and producers. Indeed, in our March *EFO* we explained that new industry data suggested producers had lowered the sugar content of their drinks at a faster pace than expected. This meant fewer producers would be subject to the higher rate of the levy and others would fall below the threshold for the lower rate. The drop in expected yield was partly offset by a policy change, but we reduced the expected yield in 2018-19 to £380 million. We have now been informed by HMRC that significant revisions to the data underpinning the estimated yield suggest the size of the tax base was considerably overestimated. These data are produced by Mintel, which pointed to the 'on-premises trade' – i.e. soft drinks sold in pubs, restaurants and cafes – as the source of the revision. We now expect the 2018-19 yield to be just £275 million.

- **Help to buy equity loan**: Launched in April 2013, this scheme provides home buyers with a Government loan towards the purchase of an eligible new build home in England and Wales (worth up to 20 per cent of the purchase price outside London and 40 per cent in London). The loans are repayable only once the home is sold. The loan scheme was originally announced to run for three years to March 2016, but was extended to March 2020 in Budget 2014, and again to March 2021 in this Budget.

- **Help to Buy ISA**: Announced at Budget 2015, this was launched in December 2015 and available until November 2019. It allowed first-time home buyers to benefit from a 25 per cent government top-up when purchasing a house with a price that does not exceed £250,000 outside London or £450,000 in London. Up to £200 a month could be saved, with a minimum of £1,600 required to receive the top-up and a maximum of £12,000 (so a maximum top-up of £3,000). Government contributions must be claimed by December 2030. In our March 2015 *EFO* we highlighted the high level of behavioural uncertainty, including the numbers of savers that would choose to open an account and the amounts they would invest. The original costing estimated cumulative Government expenditure to reach nearly £700 million by the end of 2017-18. Take-up so far has been well below expectations and the total value of payments made in the first 20 months of the scheme – to June 2017 – were just £77 million. We have revised down our forecast for 2017-18 expenditure to £110 million and lowered subsequent years by an average of around 55 per cent a year, lowering cumulative spending by £1.6 billion across the forecast.

- **Lifetime ISA**: At Budget 2016, the Government announced the introduction of the lifetime ISA that allowed savers between the ages of 18 and 40 to invest up to £4,000 a year and receive a 25 per cent top-up from government. The full amount saved, including interest, could be withdrawn without charge for either a first-time house purchase (up to a value of £450,000) or for retirement income from the age of 60. Most other withdrawals would be subject to a charge. This costing was subject to the same types of behavioural uncertainties as the help to buy ISA, as we discussed in our March 2016 *EFO*. The measure took effect in April 2017 but, as with the help to buy ISA, the start has been sluggish, with very few accounts available to savers. As a result we have reduced our forecast for the cost to government by an average of around 40 per cent a year, lowering cumulative spending by £2.6 billion across the forecast.

- **Innovative Finance ISA**: This Budget 2014 announcement created a new ISA product for returns from investments made via peer-to-peer loan platforms. At the time we highlighted the significant uncertainty around what was a relatively new financial product. Amounts deposited in these types of ISAs to date have been far lower than originally expected – just £20 million from around 2,000 accounts according to HMRC statistics, compared to the £800 million allowed for in the original costing. This is despite continued growth in peer-to-peer lending since 2014. One likely reason for this shortfall is the subsequent Budget 2015 measure on the personal savings allowance, which allowed many investors to retain interest income tax-free without the need for an ISA. Both policies took effect in April 2016. A second reason for lower-than-expected take-up reflects some of the largest platform providers taking longer than expected to gain authorisation from the Financial Conduct Authority.

- **Creative sector tax reliefs**: Since 2012 the Government has brought in a number of tax reliefs designed to promote specific 'creative' activities – in 'high-end' television, children's television, video games, animation production, theatre productions, museums and galleries, and orchestras – and it expanded the existing film tax relief. As we highlighted in March, outturn data show these reliefs have often cost more than initially expected. In this forecast we have revised the cost of these reliefs up further, by over £100 million a year, and expect their cost to continue to rise. The largest proportionate upward revisions in this forecast were to the video games tax relief (where the annual cost is roughly twice as much as expected in March) and high-end TV relief (roughly 50 per cent higher). By 2022-23 creative reliefs are expected to cost £0.9 billion a year.

- **'Capital Gains Tax: avoidance by private equity and hedge funds'**: This July 2015 announcement levies a CGT charge on the gains made by certain private equity and hedge fund managers. At the time we stressed the very high uncertainty around this costing, in particular around the tax base and the behavioural response. The costing included a large allowance "*to reflect the established ability and willingness of these individuals to find new avenues of avoidance*". But this may not have been large enough as HMRC considers the measure to have been less effective than it hoped, mostly due to the aggressive use of a loophole that was not identified at the time. The revised yield is now around £200 million or 30 per cent less than we included in our March forecast. In this Budget the Government has responded by closing the loophole, which is expected to yield around £150 million a year relative to the downwardly revised baseline. As with the original measure, we consider this to be subject to high uncertainty too (see paragraph A.12).

- **The 'commercial and profitable' test for tax credits**: This was announced in Autumn Statement 2014 and introduced in April 2015. The test requires self-employed individuals claiming working tax credit to "*show that they are trading on a commercial basis and their business is done with a view to achieving profits*". Outturn data suggest the savings from this are broadly in line with expectations, but HMRC has told us that it plans to reduce staffing long before all claimants are due to have transferred to universal credit.

- **Royalties withholding tax**: This was announced at Budget 2016 as 'corporation tax: withholding tax on royalties' and was part of the Government's contribution to the OECD's base erosion and profit shifting (BEPS) initiative. The measure sought to counter the use of intra-group royalty payments by multinationals to shift profits from the UK to lower-tax countries. It widened the scope of royalty payments to include all intangible assets such as trademarks and brand names and broadened the rules on when royalties are regarded as having a UK source. HMRC has told us that the original costing overestimated the tax base and that very little of the £150 million a year income tax yield in the original costing is now expected, but that most would be subsequently be recouped via diverted profits tax (DPT). We accepted this analysis as central and revised our pre-measures income tax and DPT forecasts accordingly. In this Budget the Government has announced a further measure, which in broad terms aims to recoup income tax yield, but at the cost of the additional DPT yield we had factored into our pre-measures forecast. The measure was, and remains, subject to high uncertainty on our rankings.

- **Value added tax: tackling overseas trader evasion**: This Budget 2016 measure sought to secure unpaid VAT from purchases through online marketplaces sourced from overseas sellers. At the time we stressed that the underlying data and the behavioural response were subject to high uncertainty. The NAO investigated this costing in April, noting that before arriving at their original tax base estimate of £1.9 billion, HMRC had "*tested these assumptions for reasonableness internally with policy and operational teams*", but that "*following OBR's comments, HMRC revised its estimate to*

£1.3 billion".[3] In the event, even this downward adjustment proved inadequate. The original costing estimated a cumulative yield of £0.9 billion from 2017-18 to 2020-21, but this has been revised down to £0.4 billion. The shortfall is largely due to the tax base now being estimated at around half the size of the lower estimate we certified. In this Budget the Government has sought to tackle this type of fraud for a second time. We have assigned the new costing a 'very high' uncertainty rating.

- **Bank levy re-scoping**: In Summer Budget 2015, the Government announced a change to the scope of the bank levy, so that liabilities associated with the overseas activities of UK head-quartered banking groups would no longer be subject to the levy. Given that the measure was (and remains) due to take effect in 2021, it fell outside the scorecard period at the time. HMRC estimates that it will reduce bank levy receipts by £620 million in 2022-23. We have incorporated that estimate into our current forecast.

Departmental spending

A.24 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, more usually, underspent in aggregate. In this Budget the Government has increased resource DEL limits from 2017-18 to 2021-22, with the largest increases in 2018-19 and 2019-20 for the NHS and for Brexit preparations, and capital DEL limits in 2019-20 and 2020-21. These and other changes are set out in detail in Chapter 4.

Indirect effects on the economy

A.25 The Government has announced a number of policy changes in this Budget that we have judged to be sufficiently large to warrant adjustments to our central economic forecast (see Box 3.1 for more details). These include:

- **Real GDP growth** – the Government has loosened fiscal policy in the near term via significant spending increases and a more modest net tax giveaway. This boosts growth by around 0.1 percentage points in 2018 and 2019, but dampens it by a similar amount in the subsequent two years as the effects of the loosening taper off.

- **House prices** – we have assumed that the result of the Government's introduction of a new permanent stamp duty relief for first-time buyers will be to increase house prices by around 0.3 per cent. The assumed effects of this measure are set out in Box 4.3.

[3] See the NAO report: *Investigation into overseas sellers failing to charge VAT on online sales.*