A Budget 2018 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 as 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 main policy decisions scorecard. For these scorecard costings we choose whether to certify them as 'reasonable and central', and whether to include them – or alternative costings of our own – in our forecast. We also include the effects of policy decisions that do not appear on the scorecard.

A.2 Unusually, in this forecast there are several costings that we have not certified. All relate to policy changes affecting universal credit, where the Treasury did not provide sufficient information in time for us to judge that the costings were reasonable and central. Table A.2 reproduces the scorecard alongside our subjective assessment of the uncertainty around each costing.[1] Table A.1 reports the effect of non-scorecard costings.

A.3 The costings process worked reasonably efficiently for the most part, with more notes submitted to us earlier than has typically been the case in previous Budgets. But the final stages proved unusually challenging, thanks to repeated failures to observe the forecast timetable that had been agreed between the Treasury and ourselves. This was the main reason for several universal credit measures not being certified. It also meant that a high volume of measures remained under consideration in the final days of the scrutiny process.

Policy decisions not on the Treasury scorecard

A.4 Our forecast includes the effect of no fewer than 18 policy decisions that the Treasury has chosen not to present on its scorecard. These are reported in Table A.1. They include:

- **Public service pensions: changes to employer contribution rates**: the Treasury has lowered the discount rate applied when calculating contribution rates for public service pensions from the 2.8 per cent that was set at Budget 2016 to 2.4 per cent. This will increase employer contributions significantly from April 2019 (and September 2019 for teachers). This reduces AME spending by an average of £5.7 billion a year from 2019-20 onwards (as higher contributions reduce net spending on public service pensions). The Treasury has set aside a broadly similar amount in RDEL spending to allow public sector employers to meet these costs.

[1] There are further details in Chapter 4 and in the Treasury's *Budget 2018 Policy costings document*, which briefly summarises the methodology used to produce each costing and the main areas of uncertainty within each.

- **Royal Bank of Scotland**: our March forecast reflected the Government's intention to sell £15 billion of RBS shares by 2022-23. In the Budget it has announced that it plans to sell all its remaining shares by 2023-24. These sales affect borrowing via the forgone dividend income on the Government's RBS shareholding.

- **Student loans asset sale**: the Government has announced an extension of the Plan 1 sales programme by a further year and aims to raise an additional £3 billion in 2022-23. This affects borrowing via the forgone interest receipts from the loans sold.

- **Spectrum sale**: Ofcom will oversee the commercial auction of spectrum licences for mobile services including 5G that is planned for the second half of 2019. The Treasury has estimated that, based on comparable auctions, this will raise around £0.5 billion in 2019-20 across two auctions. We have accepted this as a central estimate and included it in our forecast. In the National Accounts, this income is accrued over a 20-year period so the effect on receipts is £25 million a year from 2019-20 onwards.

- **The Government's financing remit**: the Government has published a revised financing remit for 2018-19 and has stated that it intends to steadily reduce the proportion of index-linked gilts issued in the medium term. This change increases accrued debt interest spending by £250 million a year by the end of the forecast.

- **Business rates revaluation**: the rateable value of business properties is usually reassessed by the Valuation Office Agency every five years, with the most recent taking place in 2017. At Spring Statement 2018 the Government announced that the next revaluation would be brought forward a year to 2021, and reduced the standard interval to three years. We were informed too late to include this in our March forecast. The Government is obliged to design the revaluation and transitional relief to be fiscally neutral. At revaluation, the multiplier is set to include headroom for future changes to the rating list (e.g. from successful appeals). With the revaluation brought forward a year, the initial boost to yield (before it is eroded by appeals) occurs a year earlier than in our March forecast. This adds £0.9 billion to receipts in 2021-22.

- **Business rates**: **extension to pilots**: the Government has extended the first wave of business rate pilots to 2019-20. As local authorities retain growth in business rates revenues beyond a specified baseline, this boosts local authorities' self-financed spending beyond the amount foregone in central government grants.

- **Council tax**: **empty homes premia**: in July 2018, the Government announced that, in addition to increasing the existing premia on homes that have been empty and substantially unfurnished for the past two years from 50 to 100 per cent from April 2019, local authorities will be allowed to charge up to 200 and 300 per cent council tax premia for homes that have been empty and substantially unfurnished for five and ten years, respectively. This will be effective from April 2020 (200 per cent) and April 2021 (300 per cent). We assume that most of the additional revenue, around £40 million a year, will be used to finance local authority spending, but we make a small allowance for some to be saved in reserves.

- **Short-term supported housing**: the Government announced in October 2017 that funding for short-term supported accommodation – such as homeless hostels, domestic abuse refuges and bail accommodation – that are secured for claimants by local authorities or charities would be provided through a grant, rather than being met through housing benefit and universal credit. The policy was due to take effect from April 2020, and would have switched AME spending into DEL. This measure reverses that decision, shifting the associated spending back to AME.

- **Enterprise investment scheme knowledge intensive companies fund**: in November 2017 the Government launched *"an action plan to unlock over £20 billion of patient capital investment to finance growth in innovative firms over 10 years"*. This included increasing the generosity of tax reliefs for those investing in 'knowledge-intensive companies' through the Enterprise Investment and the Venture Capital Trust schemes. This measure removes an exemption for dividends income, while a one-year delay to April 2020 means investors will need to be slightly more patient with their capital.

- **VAT on vouchers**: this measure updates an announcement at Autumn Budget 2017 that related to the VAT treatment of retail gift vouchers following an EU directive in 2016. The policy has been amended following a consultation that also improved the evidence base. It was initially expected to have a negligible effect, but is now expected to generate a small yield. An accounting simplification means that, in some instances, VAT will be paid based on the face value of the voucher, whereas previously it may have been based on a lower amount that was eventually paid by the end user.

- **Tobacco: anti-forestalling restrictions**: HMRC routinely applies restrictions to limit the number of cigarettes that tobacco manufacturers can 'clear' at the prevailing duty rate ahead of a Budget. Manufacturers look to clear a disproportionately high number of cigarettes in the expectation that rates will increase at Budgets, a practice known as forestalling. The allowed level is based on a formula that considers a manufacturer's daily clearances over the previous year, plus an uplift. The last time restrictions were imposed, they included an uplift of 21 days. The additional uplift has been reduced by 7 days to 14, adding £10 million to receipts in 2018-19.

- **Royalty withholding tax: adjustments**: the Government announced 'income tax: withholding tax on royalties' at Budget 2016. 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 intangible assets such as trademarks and brand names, and broadened the rules on when royalties are regarded as having a UK source. At Autumn Budget 2017 the Government addressed some failings with the initial measure by announcing 'royalty payments made to low tax jurisdictions: withholding tax', which expanded the scope of the earlier measure to cover royalties and other similar payments that are connected with sales to UK customers. HMRC has told us that the combined expected yield from the earlier measures was to be revised down again, but that it is partly offset by further policy changes since our March forecast. The largest yielding component of these is the inclusion of embedded royalties. Other amendments include a change in collection

mechanism – it is now to be collected via self-assessed income tax, and that it is no longer a withholding tax but a direct income charge.

- **Non-resident gains on UK property**: this Autumn Budget 2017 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. The costing for the original measure has been revised down in line with our lower property price forecast. This measure revises last year's announcement with several changes to the policy design. The largest of these is the removal of capital gains tax related to annual tax on enveloped dwellings.

- **Life assurance**: **change to reform loss relief rules**: at Budget 2016 the Government announced a measure that restricted the use of brought forward losses to 50 per cent of the corporation tax liability, though there is no restriction to rolling losses forward to future years. This led to unintended consequences for the life assurance sector. For insurers writing 'basic life assurance and general annuity business' (BLAGAB), some of their trading profits are not chargeable to corporation tax. This meant the level of the loss relieved could be higher than 50 per cent of the profits subject to corporation tax. This measure ensures that the 50 per cent cap will also apply to BLAGAB profits. It initially raises £20 million a year before declining in later years. BLAGAB profits are typically volatile, which creates additional uncertainty around this costing.

- **HGV road user levy**: **air quality incentive**: this measure reduces HGV levy rates by 10 per cent for lower emitting Euro VI vehicles, and increases them by 20 per cent for higher emitting Euro 0 to V vehicles. It is effective from February 2019. The cost of this measure rises to £10 million a year by 2023-24. It is sensitive to the assumed pace at which HGV fuel efficiency improves, but is not in itself expected to change that pace.

- **Carer's allowance**: **devolution to Scotland**: the Scotland Act 2016 makes provision for several social security benefits to be devolved to the Scottish Government. The first of these is carer's allowance, which was devolved in September. This is a close-to neutral switch, moving from DWP AME to Scottish Government AME. Spending on devolved carer's allowance is expected to be around £360 million a year by 2023-24.

- **Non-scorecard Scottish AME**: non-scorecard Scottish AME includes consequences of UK Government decisions that are not reported on the Treasury scorecard. For example, the Treasury reports the effect of decisions in terms of the block grant adjustment, but does not include the direct effect on Scottish taxes. This line balances the effect in Scottish self-financed expenditure from changes in Scottish taxes that we include in our receipts forecast.

- **Other non-scorecard DEL changes**: partly offsetting the giveaways, the Government has decided to cut departmental capital spending (CDEL) by over £2 billion a year on average from 2020-21 onwards. The largest CDEL change comes in 2020-21, where the Government has cut overall CDEL limits by £7 billion. Since a significant amount of those limits had still not been allocated to departments, we had already assumed that

they would be significantly underspent in the absence of any policy change. The net effect on our CDEL spending forecast of all non-scorecard policy is 2020-21 is a reduction of £3.8 billion.

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

		£ million					
	Head	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Public service pensions: changes to employer contribution rates	Current AME	0	+4735	+5700	+5910	+6095	+6305
	RDEL	0	-5375	-5515	-5610	-5700	-5870
Royal Bank of Scotland	Receipts	+150	+385	+525	+585	+445	+190
Student loans asset sale	Receipts	0	0	0	0	0	-420
Spectrum sale	Receipts	0	+25	+25	+25	+25	+25
Government's financing remit	Current AME	0	-20	-50	-90	-155	-250
Business rates revaluation	Receipts	0	0	0	+935	-15	-170
Business rates: extension to pilots	Current AME	0	-890	+65	+5	0	0
	Capital AME	0	-1075	0	0	0	0
Council tax: empty homes premia	Current AME	0	-30	-35	-35	-35	-40
	Receipts	0	+30	+40	+40	+40	+40
Short-term supported housing	RDEL	0	0	+1010	+1040	+1070	+1100
	Current AME	0	0	-1010	-1040	-1070	-1100
EIS knowledge intensive companies fund	Receipts	0	+10	+5	+5	+5	+5
VAT on vouchers	Receipts	+5	+10	+10	+10	+15	+15
Tobacco: anti-forestalling restrictions	Receipts	+10	0	0	0	0	0
Royalty withholding tax: adjustments	Receipts	0	-275	+225	+100	+65	+55
Non-resident gains on UK property	Receipts	neg	+10	-5	-15	-20	-15
Life assurance: change to reform loss relief rules	Receipts	+20	+20	+15	+10	+10	+10
HGV road user levy: air quality incentive	Receipts	0	0	-5	-5	-5	-10
Non-scorecard Scottish AME	Current AME	-15	+265	-470	-465	-420	+80
	Capital AME	0	0	0	+125	+90	+50
Other non-scorecard DEL changes[1]	RDEL	+935	+2185	-3645	-3430	-3060	+2220
	CDEL	-25	+515	+3755	+1850	+3010	+900
Effect of Government decisions		+1080	+2405	+655	-45	+385	+3130

Note: The presentation of these numbers is consistent with the usual scorecard treatment, with negative signs implying an Exchequer loss and a positive an Exchequer gain.

[1] The change in 2023-24 is relative to a baseline that assumes DEL would otherwise have remained constant as a share of GDP.

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.

A.6 We have not assigned an uncertainty rating to the package of universal credit measures, which includes some individual costings that were certified and some that were not. The largest of these – the increase to work allowances – is not hugely uncertain, but the interactions between the other parts of the package and between the above-inflation rise in the personal allowance and universal credit spending are more complex and uncertain. Past experience suggests that these interactions are only likely to be fully understood once they have been modelled properly by DWP analysts for our next forecast.

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

		Head	£ million[1]						Uncertainty
			2018-19	2019-20	2020-21	2021-22	2022-23	2023-24[2]	
Spending and Public Services									
1	National Health Service: five year settlement agreed in June 2018	Spend	0	-7,350	-11,130	-16,090	-21,400	-27,610	N/A
2	Social Care: 2018-19 and 2019-20 funding	Spend	-285	-775	-	-	-	-	N/A
3	Children's Social Care: improvement pilots	Spend	0	-45	-25	-15	-15	0	N/A
4	Transport: road maintenance	Spend	-500	0	0	0	0	0	N/A
5	Schools: 2018-19 capital	Spend	-475	0	0	0	0	0	N/A
6	Justice: 2018-19 prisons, courts, and justice system funding	Spend	-60	0	0	0	0	0	N/A
8	Defence: 2018-19 and 2019-20 funding	Spend	-200	-800	0	0	0	0	N/A
7	Centre for Public Sector Leadership	Spend	0	-10	-10	-10	0	0	N/A
9	Armistice Day Commemorations	Spend	-15	0	0	0	0	0	N/A
Living Standards									
	Tax								
10	Personal Allowance and Higher Rate Threshold: increase to £12,500 and £50,000 for 2019-20 and 2020-21	Tax	0	-2,790	-1,935	-1,445	-1,605	-1,780	Medium
11	Fuel Duty: freeze for 2019-20	Tax	0	-840	-855	-880	-910	-935	Medium-Low
12	Alcohol Duties: freeze spirits, beer and cider in 2019 and set rate for high strength cider	Tax	-35	-165	-175	-175	-180	-185	Medium-Low
	Welfare								
13	Universal Credit: £1,000 increase to work allowance	Spend	0	-545	-865	-1,130	-1,400	-1,695	
14	Universal Credit: additional support for transition	Spend	-35	-90	-170	-255	-240	-205	
15	Universal Credit: revised implementation schedule	Spend	0	-95	+320	+845	+745	+250	
16	Industrial Injuries Disablement Benefit: include Dupuytren's contracture	Spend	0	0	-5	-5	-5	-5	Medium-Low
	Spending								
17	Low Cost Credit: support	Spend	0	-5	*	0	0	0	N/A
18	Pensions Dashboard: further funding	Spend	0	-5	0	0	0	0	N/A
19	Disabled Facilities Grant: expand	Spend	-65	0	0	0	0	0	N/A
Business and Growth									
20	Annual Investment Allowance: temporary increase to £1m for two years from January 2019	Tax	-215	-600	-425	+140	+185	+155	Medium
21	Structures and Buildings Allowance: permanent capital allowance for new structures and buildings	Tax	-55	-165	-260	-365	-475	-585	Medium
22	Special Writing Down Allowance: align with depreciation in accounts at 6% rate	Tax	+75	+250	+360	+325	+315	+305	Medium
23	Apprenticeships: halve co-investment rate to 5%	Spend	0	-25	-60	-60	-70	-70	N/A
24	Skills: regional pilot of course subsidy for self-employed	Spend	0	-5	-5	0	0	0	N/A
25	Skills: regional pilot of on-the-job training for young people	Spend	0	-5	-5	0	0	0	N/A
26	Skills: digital skills boot camps	Spend	0	-5	0	0	0	0	N/A
27	Enterprise: expand Knowledge Transfer Partnerships	Spend	0	0	-5	-10	-10	-10	N/A
28	Enterprise: extension of start-up loans programme	Spend	0	0	-5	0	0	0	N/A
29	Enterprise: University Enterprise Zones	Spend	-5	0	0	0	0	0	N/A
30	Trade: Global Britain	Spend	0	-5	0	0	0	0	N/A
31	Energy: support for UK nuclear fusion	Spend	0	-20	0	0	0	0	N/A
32	Quantum Technology: research and development	Spend	0	-5	-5	-15	-10	0	N/A

Housing and Homeownership								
33 Local Authority Housebuilding: remove borrowing cap	Spend	-95	-385	-850	-855	-1,235	-1,235	Medium-High
34 Development Corporations: competitive fund	Spend	0	*	-5	-5	0	0	N/A
35 Discounted Homes: capacity funding	Spend	0	-5	-5	-5	0	0	N/A
36 Strategic Housing Deals: capacity funding	Spend	0	-5	-5	0	0	0	N/A
37 Stamp Duty Land Tax: extend First Time Buyers relief for shared ownership properties	Tax	*	-5	*	*	*	-5	Medium-Low
Environment								
38 Plastics and Waste: sustainability and innovation	Spend	0	-20	0	0	0	0	N/A
39 Abandoned Waste Sites: clearance	Spend	0	-5	-5	0	0	0	N/A
40 Urban Tree Planting	Spend	0	-5	-5	*	*	0	N/A
41 Air Quality	Spend	-10	-15	0	0	0	0	N/A
42 Industrial Energy Transformation Fund[3]	Spend	0	-20	-60	-90	-75	-70	N/A
43 Capital Allowances: discontinue enhanced allowances for energy and water-efficient	Tax	0	+10	+50	+100	+80	+75	Medium
Local Growth								
44 Business Rates: one third off for retail premises up to a rateable value of £51,000 in 2019-20 and 2020-21	Tax	+10	-490	-450	+45	-15	0	Medium-High
45 Future High Streets Fund: resource	Spend	0	-20	-15	-15	-10	-5	N/A
46 Future High Streets Fund: capital[4]	Spend	0	-5	-75	-220	-240	-195	N/A
47 Business Rates: public lavatories relief from 2020-21	Tax	0	0	-5	-5	-5	-5	Low
48 City and Growth Deals: Tay, Belfast, North Wales, Stirling and Clackmannanshire	Spend	-5	-40	-40	-	-	-	N/A
49 Coventry: City of Culture	Spend	0	-10	0	0	0	0	N/A
50 Northern Powerhouse Rail: development funding	Spend	0	-40	0	0	0	0	N/A
51 East-West Rail: development funding	Spend	0	-20	-	-	-	-	N/A
52 West Midlands Combined Authority: UK Mobility Data Institute	Spend	-20	0	0	0	0	0	N/A
A fair and sustainable tax system								
53 Digital Services Tax	Tax	0	+5	+275	+370	+400	+440	Very High
54 Off-payroll Working: extend reforms to private sector in 2020-21, excluding small businesses	Tax	-5	-150	+1,165	+595	+635	+725	Very High
55 Corporation Tax: restrict use of carried forward capital losses from 2020-21	Tax	0	+25	+110	+140	+140	+125	Medium-High
56 Capital Gains Tax: extend Entrepreneurs' Relief minimum qualifying period	Tax	0	+5	+10	+75	+80	+90	High
57 Private Residence Relief: reform lettings relief and final period exemption from 2020-21	Tax	0	+15	+50	+120	+135	+150	High
58 VAT Registration Threshold: maintain at £85,000 for further two years	Tax	0	0	+60	+130	+145	+150	Medium-High
59 Employment Allowance: restrict to businesses below a £100,000 employer NICs threshold from 2020-21	Tax	0	0	+225	+260	+290	+320	Medium
60 Climate Change Levy: move towards equalised gas and electricity rates	Tax	0	0	*	*	*	+5	Medium
61 Aggregates Levy: freeze in 2019-20	Tax	0	-10	-15	-15	-15	-15	Low
62 Heavy Goods Vehicle VED: freeze in 2019-20	Tax	0	-5	-5	-10	-10	-10	Low
63 Tobacco Duty: RPI plus 2ppt on all duties and additional 1ppt for hand rolling tobacco	Tax	0	+5	+5	+5	+5	+5	Medium
64 Carbon Price Support: freeze rate at £18 in 2019-20 and 2020-21	Tax	0	0	-15	-15	-20	-20	Medium-Low
65 Alcohol Duty: ban post duty point dilution	Tax	0	+65	-15	+85	+85	+90	Medium-High
66 Savings: maintain thresholds for adult ISA allowance and starting rate of savings	Tax	0	*	+5	+5	+5	+10	Medium-Low
67 Gift Aid: increase small donation limit from £20 to £30	Spend	0	-5	-5	-5	-5	-5	Medium-Low
68 HMRC: funding for Budget measures	Spend	-5	0	0	0	0	0	N/A

Avoidance, Evasion, and Unfair Outcomes								
69 Withheld Taxes: protecting your taxes in insolvency and tackling abuse	Tax	0	+10	+65	+150	+195	+185	Medium-High
70 R&D Tax Credits: preventing abuse of the SME payable credit	Spend	0	0	0	+20	+45	+45	Medium
71 VAT: ensuring proper adjustments	Tax	+5	+150	+200	+200	+195	+190	Very High
72 Offshore: prevent profit fragmentation, extend VAT grouping rules and prevent looping	Tax	*	+65	+65	+75	+95	+100	Very High
73 Capital Gains Tax: tackling misuse in Entrepreneurs' Relief	Tax	0	+5	+10	+10	+10	+15	High
Previously announced policy decisions								
74 Tuition Fees: freeze fees in September 2019	Tax	0	*	-10	-20	-30	-40	Medium-Low
75 NICs: delay NICs Bill by one year and maintain Class 2 NICs	Tax	-5	+180	+395	+370	+335	+310	Medium-Low
76 Childcare Vouchers: extension to the closure for new entrants to October 2018	Tax	-45	-55	-50	-40	-25	-10	Medium-High
77 Fixed Odds Betting Terminals: £2 stake limit in October 2019	Tax	0	-120	-245	-255	-260	-270	High
78 Remote Gaming Duty: raise to 21% in October 2019	Tax	0	+130	+255	+265	+280	+295	Medium-High
79 Index Linked Savings Certificates: reindex at next maturity date from May 2019	Spend	0	+35	+85	+150	+165	+175	Medium
80 National Retraining Scheme: first phase	Spend	0	-10	-25	-80	0	0	N/A
81 Support for Enterprise	Spend	0	-35	-	-	-	-	N/A
82 Birmingham: future mobility area	Spend	0	-10	-10	-10	0	0	N/A
83 Food Waste: pilot	Spend	0	-20	0	0	0	0	N/A
84 Mayoral Combined Authorities: extension of borrowing powers	Spend	-45	-160	-245	-205	-70	0	N/A
85 Youth Endowment Fund	Spend	-225	0	0	0	0	0	N/A
86 Public Service Broadcasting Contestable Fund	Spend	0	-15	-20	0	0	0	N/A
Total policy decisions[5]		**-2,305**	**-15,085**	**-14,395**	**-17,600**	**-23,520**	**-30,560**	
Total spending policy decisions		**-2,035**	**-10,905**	**-13,370**	**-17,880**	**-23,650**	**-30,520**	
Total tax policy decisions		**-270**	**-4,180**	**-1,025**	**+280**	**+125**	**-40**	

** 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] *In 2019-20 £10m is funded from the Reserve, and is not included in total policy decisions.*

[4] *In 2021-22, 2022-23 and 2023-24, the capital funding for this measure has been allocated from within the National Productivity Investment Fund, and is not included in total policy decisions.*

[5] *Totals may not sum due to rounding.*

An example of assigning uncertainty rating criteria

A.7 Table A.3 shows the detailed uncertainty criteria and applies them to a sample policy measure from this Budget: **'Remote Gaming Duty: raise to 21% in October 2019'**. This measure increases the RGD rate from 15 to 21 per cent from October 2019. This is aimed at offsetting the loss in revenue from the new maximum stake cap of £2 on 'B2' gaming machines, from the current maximum of £100. This policy is expected to raise £130 million in 2019-20 and an average of £275 million a year from 2020-21 onwards. Against each uncertainty criterion:

- **Behavioural**: this is the most important source of uncertainty in this costing. Given the significant rise in duty rate, it is likely that operators will pass the tax increase onto consumers. If the price of remote gaming increases, this would reduce demand by an amount dependent on consumers' responsiveness to price changes in the gaming industry. The behavioural estimate in the costing is based on research by Frontier Economics on behalf of HMRC. Compliance with the rate change and attrition are also considered, as it is an innovative industry. This is a 'high' source of uncertainty.

- **Data**: the main data for this costing are RGD receipts, gross profits, prices and stakes. We believe the data give a reasonably reliable indication of the tax base and static costing, so consider this a 'medium-low' source of uncertainty.

- **Modelling**: our forecast for RGD receipts is used to model gross profits, prices and stakes. Gambling Commission data are used to help model the additional RGD receipts expected because of the reduced spending on B2 machines. We consider this a 'medium-low' source of uncertainty.

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

Table A.3: Assigning uncertainty rating criteria to 'Remote Gaming Duty: raise to 21% in October 2019'

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	**Low**	**Medium**	**High**
Overall		**Medium-High**	

A.8 Using the approach set out in Table A.3, we have judged 8 measures in the scorecard to have 'high' or 'very high' uncertainty around the central costing. Together, these represent 9 per cent of the scorecard measures by number, or 21 per cent of the tax and AME measures that we have certified. They represent 29 per cent of certified measures by absolute value or 6 per cent of all scorecard measures. [2] Of these highly uncertain measures, one has an Exchequer cost (which totals £1.2 billion over the forecast period) while seven have an Exchequer yield (which totals £6.6 billion).

Digital services tax

A.9 The Government has announced a new tax on the revenues of large businesses in the digitalised sector that derive value from a UK user base, regardless of whether they have a taxable UK presence. This includes social media platforms, search engines and online marketplaces. Rather than defining value or how it is derived, the 'digital services tax' will levy a 2 per cent tax on revenues generated by specific business models and activities that the Government has deemed to meet this definition and to relate to UK users. It will be legislated for in the 2019-20 Finance Bill and will be take effect in April 2020.

A.10 We have certified that the methodology used to produce this costing is reasonable and central, but there is a high degree of uncertainty around the central estimates of the yield (£275 million in 2020-21 rising to £440 million in 2023-24). The multiple steps in the costing methodology that underpinned these estimates included:

- **Identifying the groups that could be in scope.** Groups are identified using the United Nations Conference on Trade and Development *World Investment Report* and the commercial ORBIS database. In total around 30 groups were identified. There could of course be more in the future as new businesses are set up and grow.

- **Collecting data on the global revenues in scope.** Global revenues in scope for most groups are obtained from published annual reports. Where annual reports are not available, global revenues in scope are sourced from various external sources.

- **Estimating the proportion of global revenues in scope that relate to the UK.** For just over half the groups the revenues are either explicitly disclosed in their annual reports or have been obtained from external sources. For just under half, HMRC used a range of modelling approaches, most relying on estimating the proportion of relevant global revenues that would be in scope of the tax. In some cases, available data required little manipulation to generate a proxy for UK revenues. In others, little relevant information was available and less closely linked proxies had to be used.

- **Projecting the tax base.** The tax base is grown over the forecast period using an average of the historical growth in revenues of the identified groups and our profits forecast. The variability of past revenue growth signals this as a significant source of uncertainty around the estimated yield from the new tax.

[2] Absolute value ignores whether they are expected to raise or cost money for the Exchequer.

- **Allowing for the de minimis threshold and the allowance.** The digital services tax will only apply to groups with £500 million of global revenues from the business lines in scope of the tax. There is also a £25 million allowance for revenues attributable to the activities of UK users from one or more business lines in scope of the tax.

- **Adjusting for a 'safe harbour'.** This would cap a group's liability to the digital services tax if it had a low or negative profit margin. The costing we certified included specific parameters for this provision, which the Government plans to publish with its consultation on the digital services tax next month.

- **Reflecting the reduction in corporation tax receipts** that will result from the digital services tax being an expense against a group's corporation tax liability, where that expense relates to revenues recognised in the UK.

- **Estimating the revenue consequences of potential behavioural responses.** Some of the yield estimated via the steps above is expected to be lost to behavioural responses – known as attrition. The Government expects this to be relatively limited. Potential responses include: reclassifying revenue currently in scope as being out of scope, particularly for groups with mixed business models; altering business models to generate new revenue streams that are out of scope; and profit shifting. The costing allows for attrition rising to 30 per cent by 2023-24.

A.11 We sought reassurances around HMRC's compliance activities. The costing was certified subject to HMRC receiving the funding required for the approximately 20 full-time equivalent staff positions required to police compliance with the digital services tax.

A.12 There is also uncertainty around the final policy design that might emerge once future consultations have taken place, including one that the Government will launch in early November. We have been told that the Government will consult on the design of the safe harbour and, for administration purposes only, the deductibility against corporation tax, the allowance and the de minimis. If consultation leads to changes in the parameters on which these costings are based then we would expect these to be reflected as a future scorecard policy costing that we would scrutinise in the usual way.

A.13 Most of the forecast revenue is expected to come from a handful of large businesses. This mostly relates to advertising revenue and the commissions charged by online marketplaces. As this is likely to reflect a rising share of overall economic activity in the future, the yield from this tax could rise faster than GDP for many years beyond the forecast horizon, as revenues for those groups currently within scope continue to rise and several currently out-of-scope groups – e.g. those not currently generating profits – come within scope.

A.14 Every stage of this costing is uncertain. We have assigned uncertainty around data as 'high', uncertainty around behaviour as 'medium-high' and, given the complex multi-stage costing methodology, uncertainty around modelling as 'very high'. As this is deemed the most important element of the costing, it is deemed 'very high' uncertainty overall.

Other highly uncertain measures

A.15 The other measures subject to a 'very high' or 'high' uncertainty rating are:

- **'Off-payroll working: extend reforms to private sector in 2020-21, excluding small businesses'**: this measure relates to the taxation of off-payroll workers who work for a private sector client through their own intermediary, such as a personal service company. This allows them to pay less tax and NICs than employees. Rules are already in place to ensure that when a worker can be shown to work in effect as an employee, then the tax and NICs due would be broadly the same as an employee. This measure moves the burden of responsibility for determining whether existing rules apply to the engager (i.e. the private sector business) rather than the intermediary. HMRC expects this to increase compliance and revenue. There are multiple sources of uncertainty with the costing. No information is directly held on the tax base, which has had to be estimated using a series of very uncertain judgements. The costing assumes a high level of attrition as it is deemed very likely that individuals will continue to seek ways of minimising the tax they pay. A previous measure that targeted similar workers in the public sector has so far raised more than originally expected, but non-compliance is assumed to be greater in the private sector. Overall, we give this a 'very high' uncertainty rating, with data, behaviour and modelling all deemed to be sources of 'high' or 'very high' uncertainty.

- **'VAT: ensuring proper adjustments'**: this measure has two components. The first – relating to VAT on unfulfilled supplies – applies VAT to cases where a customer makes a full or part pre-payment for a service or good but then does not use or collect it. An example would be the booking and subsequent cancellation of a hotel room. The second part closes a loophole that allows businesses to adjust their VAT return to reclaim VAT from HMRC in respect of past periods with no time limit. Data for both elements are highly uncertain, particularly the second which assumes the number of businesses currently exploiting the loophole by extrapolating from the limited number of known cases. The low quality of data means the modelling relies on several assumptions to derive the tax base and, as with many 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, with data, behaviour and modelling all deemed to be sources of 'very high' uncertainty.

- **'Offshore: prevent profit fragmentation, extend VAT grouping rules and prevent looping avoidance schemes'**: this package of anti-avoidance measures has three components. Profit fragmentation targets UK residents who avoid UK tax by diverting their business profits via an external entity. The second component relates to VAT exempt businesses that use overseas branches and UK VAT grouping rules to circumvent non-recoverability of acquisitions subject to VAT. The third element tackles a VAT avoidance scheme known as 'offshore looping' that is used within the insurance sector. As is often the case with offshore measures the behavioural response is highly uncertain and we have given this package a 'very high' uncertainty rating overall.

- **'Fixed odds betting terminals: £2 stake limit in October 2019'**: this policy will cap the maximum stake in fixed odds betting terminals at £2 from the previous £100. The main uncertainty is around the behavioural response of gamblers and the extent to which they reduce the amounts they bet in these machines and whether they choose to switch to alternative forms of gambling. One of those alternatives is to engage in more online gambling, some of which be reflected in the costing for the change to remote gambling duty also announced in this Budget. We give this costing a 'high' uncertainty rating.

- **'Capital gains tax: tackling misuse in entrepreneurs' relief'**: this measure adds two new tests designed to limit the eligibility for entrepreneur's relief and prevent misuse. The key uncertainty in this costing relates to the low quality of relevant data, and we assign this costing a 'high' uncertainty rating overall.

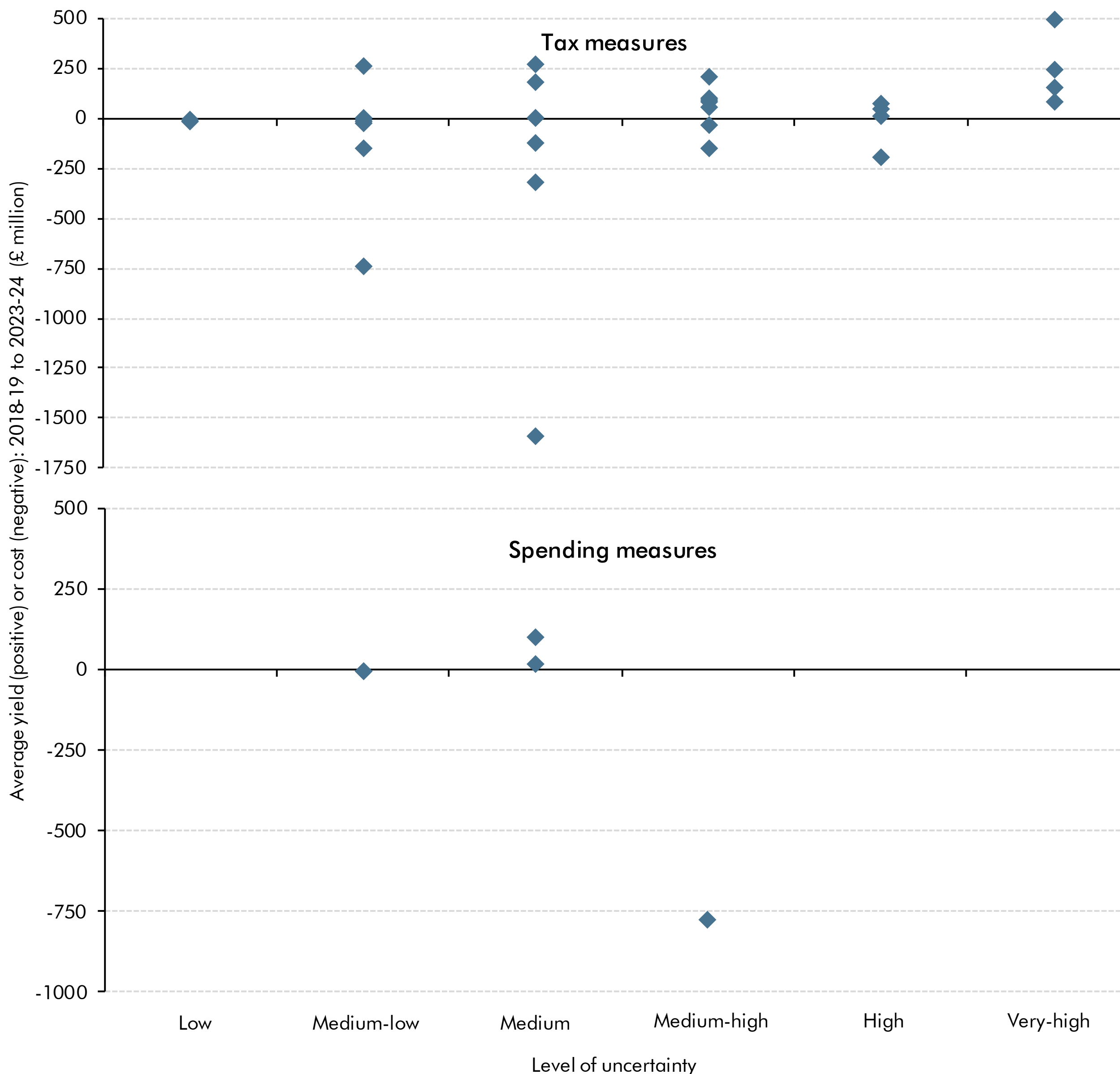
- **'Capital gains tax: extend entrepreneurs' relief minimum qualifying period'**: this measure increases the minimum qualifying period for eligibility for entrepreneurs' relief to two years. The data and modelling underpinning this costing are highly uncertain. Overall, we assign this costing a 'high' uncertainty rating.

- **'Private residence relief: reform lettings relief and final period exemption from 2020-21'**: private residence relief exempts main residences from CGT. This measure makes changes to two reliefs – the final period exemption is reduced from 18 to 9 months and lettings relief is restricted to those owners that share with their tenants. There is limited data on the take-up of these reliefs, so the tax base is derived using several assumptions. Overall, we assign this costing a 'high' uncertainty rating.

A.16 We have judged 27 scorecard measures to have 'medium-low' to 'medium-high' uncertainty around the central costing, with three having 'low' uncertainty. That leaves 71 per cent of the certified tax and AME scorecard measures in the medium range (70 per cent by absolute value). 8 per cent have been rated as low (just 1 per cent by absolute value).

A.17 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 spending measures are typically assigned lower uncertainty ratings than tax measures, while those measures cutting taxes typically have lower uncertainty ratings than those raising them. 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.18 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:

- **'Corporation Tax: restrict use of carried forward capital losses from 2020-21'**: this measure restricts the amount of brought forward capital losses a company can offset against taxable gains. The yield rises to £140 million in 2021-22, but we expect this to erode over time. HMRC estimates it may take over 20 years for the costing to reach steady state.

- **'Structures and buildings allowance: permanent capital allowance for new structures and buildings'**: this introduces a 2 per cent capital allowance for all new expenditure on structures and buildings. The annual cost rises to £585 million by 2023-24, but this continues to rise as investments can take a long time to be written off. HMRC estimates it will take around 50 years to reach steady state. The long-term cost is expected to be around £2 billion in 2018-19 prices.

- **Freezing of indexation allowance for corporation tax**: when companies 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 Autumn Budget 2017 measure froze the allowance so that inflation-driven gains beyond January 2018 will not attract relief. The costing has been re-estimated for this forecast. The measure takes a long time to reach a steady state, as some of the relevant assets are held for lengthy periods. It is currently estimated to raise around £550 million in 2023-24, and the long-term projection suggests it may reach around £750 million by 2028-29.

- **Student loans asset sale**: with the sale of Plan 1 student loans the Government is exchanging an uncertain 30-year revenue stream for an upfront payment. As we discuss in Chapter 4, this has the effect of improving public sector net debt in the near term but increasing future public sector net borrowing.

- **Digital services tax**: it seems likely that the tax base for this new tax will rise faster than GDP for some time, so the annual yield could continue to rise in the longer term.

Small measures

A.19 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.20 By definition, any costings that meet all these conditions will have a maximum uncertainty rating of 'medium'.

A.21 A good example of a small measure announced in this Budget is the '**Business Rates: Public Lavatories Relief**' measure. This policy reduces bills to zero for eligible hereditaments from 2020-21. It is expected to cost £5 million a year. The measure uses high quality data based on the Valuation Office Agency ratings list to show that there are currently 3,500 public

toilets in England. The modelling is straightforward – the total rateable value of the public toilets is multiplied by a multiplier for 2020-21 to produce the static costing. The prospect of a behavioural response from business rates payers – a boom in the provision of public conveniences to benefit from the additional form of relief they now afford – seems unlikely.

Update on previous measures

A.22 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

A.23 Our forecast reflects three previously announced policies that have been reversed:

- **PAYE cap for R&D tax credits**: the Government is re-introducing a PAYE cap on the amount of payable R&D tax credit that can be claimed by a company under the small or medium-sized companies scheme. The cap was previously removed in 2012, but will be effective again from April 2020. The yield rises to £45 million in 2023-24.
- **Abolition of Class 2 NICs**: the Government announced at Budget 2016 that it would abolish Class 2 NICs with effect from April 2018. At Autumn Budget 2017, it decided to delay that by a year. In September it abandoned the policy completely. Not going ahead raises an average of £375 million a year relative to the delayed policy implementation assumed in our baseline forecast.
- **Universal credit work allowances**: the work allowance income threshold is the amount that claimants of universal credit can earn before their award is tapered. In Summer Budget 2015, the Government cut these as part of a £12 billion package of welfare savings. Many elements of that package have already been reversed. In this Budget, the Government has announced that work allowances will increase by £1,000 in April 2019, reversing around half the saving from the Summer Budget 2015 measure.

Policy delays

A.24 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:

- **NICs on Termination Payments**: this measure, which was announced at Budget 2016, applies employer NICs on termination payments that exceed the £30,000 tax exemption threshold. It was due to begin from April 2018, but was delayed by one

year at Autumn Budget 2017. At this Budget, as part of 'NICs: delay NICs Bill by one year and maintain Class 2 NICs' this has now been delayed by a further year, until April 2020. The effect of this is a revenue loss of £215 million in 2019-20.

- **Employer supported childcare (ESC)**: this scheme is available to working parents through their employer. It was initially due to be phased out in autumn 2015 following the launch of tax-free childcare (TFC). The repeated delays to TFC has meant the ESC scheme has now been extended to October 2018, three years later than planned. The latest extension, confirmed in this Budget, was for six months and is expected to cost around £50 million a year as more families are able to enter the scheme and they can remain in it after it has closed to new entrants.

- **Universal credit**: the Coalition Government first announced universal credit (UC) in 2010, with a provisional timetable that would have seen the rollout completed by October 2017. The rollout schedule has been pushed back repeatedly since then. After the further delays announced in this Budget we now assume the rollout will be complete in 2024-25. While earlier delays were due to issues with operational delivery, more recent delays have been largely due to changes in the design of policy (see Chapter 4 for more information).

- **Enterprise investment scheme knowledge intensive companies fund**: the one-year delay to this measure is described in paragraph A.4.

HMRC tax reliefs

A.25 Governments since 2010 have introduced a succession of tax reliefs designed to stimulate a desired response, such as the promotion of entrepreneurship and the 'creative' sector. We consider five separate types of schemes to show how the cost has risen over time, often far beyond what was expected at the time of the original costings. These five are:

- **Entrepreneurs' relief**, which allows directors of companies with significant stakes in them (over 5 per cent) to pay a lower tax rate of 10 per cent on disposals of shares below a certain threshold, rather than the much higher headline capital gains tax rate. Between 2010 and 2011, the lifetime limit was raised from £2 million to £10 million. In this Budget two new measures aim to tighten the rules around eligibility. Nevertheless, the latest estimate is that entrepreneurs' relief cost £2.7 billion in 2017-18, and it is projected to cost £3.9 billion in 2023-24.

- **Venture capital investment schemes**, which include three separate tax reliefs. Two of them, the enterprise investment scheme (EIS) and venture capital trusts, are long-running tax reliefs first introduced in the 1990s to create incentives for investors to fund smaller, high-risk companies through income tax relief, capital gains tax reliefs on disposals of shares and (in some cases) income tax relief on dividends. These regimes offer a generous rate of tax relief and the amount of qualifying share disposals has been increasing. The seed enterprise investment scheme was introduced in 2012-13 and is similar to the EIS, but targeted at smaller companies. A third scheme – the

social investment tax relief – was introduced in 2014 and offers income tax relief and CGT relief to investors in social enterprises. These schemes have cost the Exchequer a combined £0.8 billion in 2017-18, twice the £0.4 billion cost in 2010-11. We expect the cost to rise to £1.0 billion in 2023-24.

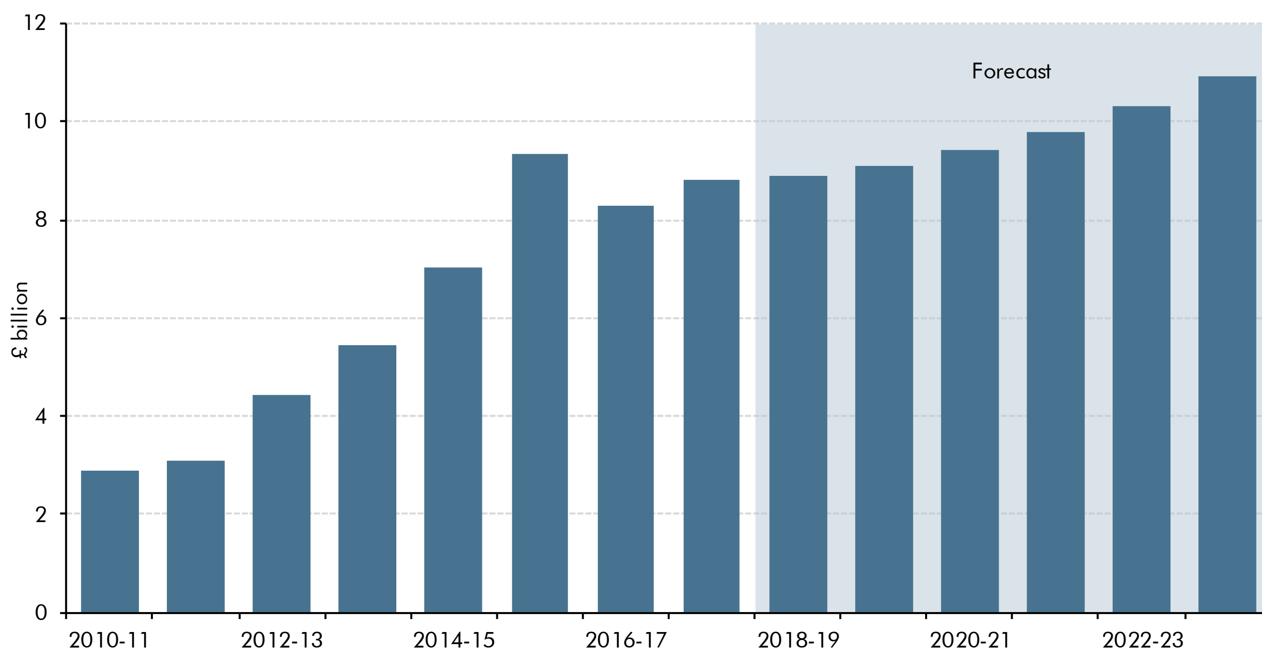
- **The patent box** aims to reward intellectual property (IP) that is commercialised in the UK by lowering the corporation tax (CT) rate on profits made from those patents. The original scheme was announced in 2010 and was amended significantly in 2016 to limit jurisdictions from using incentives to compete for mobile IP. The latest estimate is that the patent box cost £0.9 billion in 2017-18, rising to £1.0 billion in 2023-24.

- **Research and development (R&D) tax credits**, a complex set of directly payable and reduced liability corporation tax credits designed to incentivise expenditure on innovation activities. R&D tax credits are a long-running programme, whose structure has changed several times, but whose overarching characteristics have stayed broadly similar: the scheme allows companies to deduct their expenditure on R&D-related activities for taxable income purposes, and gives a more generous incentive for smaller companies. The cost of the schemes has increased significantly, especially since the introduction of more generous relief for large companies in 2013-14. The reliefs are estimated to have cost £3.5 billion in 2017-18, compared with £1.1 billion in 2010-11. We expect the cost to rise to £3.9 billion in 2023-24.

- **Creative reliefs**, which includes film production, high-end television, animation production, video games, orchestras, theatres, children's television, and museum and galleries tax reliefs. These reliefs give enhanced deductibility for expenditure that takes place in the UK, which means that a company's taxable income is reduced by more than one pound for every pound spent. Film tax reliefs were introduced in 2007 and the other creative reliefs have been introduced progressively since 2013-14. Their cost has risen significantly since then. Creative reliefs cost £0.2 billion in 2010-11 and this has risen to £0.9 billion in 2017-18, mostly due to unexpectedly high take-up and the introduction of new reliefs. We forecast that the cost of creative reliefs to rise to £1 billion in 2023-24.

A.26 Chart A.2 shows these schemes cost a combined £8.7 billion in 2017-18, compared with £2.7 billion in 2010-11. We forecast that their cost will continue to increase over the course of our forecast, rising to £11 billion in 2023-24.

Chart A.2: Latest estimate and forecast of the total cost of creative and entrepreneurial reliefs



Source: OBR

A.27 We have also received updates on several other policies including:

- **Presenting officers**: at Budget 2016, as part of the measure 'DWP and HMRC operational and policy measures', the Government announced that £22 million would be allocated to DWP to recruit staff across 2016-17 and 2017-18 to support the department in personal independent payment and employment and support allowance tribunals. Presenting officers were to attend tribunals and assist in the decision-making process. The original costing expected this would generate savings of £25 million in 2017-18, rising to £35 million a year from 2018-19. In our March 2017 *EFO* we reported that a delay in recruitment meant the savings were pushed back a year. We have now been told that fewer presenting officers have been attending tribunals than expected, roughly halving the expected savings.

- **Transferable marriage allowance**: this measure was announced in September 2013 allowing spouses and civil partners to transfer £1,000 of their own personal tax allowance to their partner, provided neither of them were higher or additional rate taxpayers. Take up of this measure was very low at the beginning. In the original costing HMRC estimated around 70 per cent take-up in 2015-16, but it reached only 16 per cent. Take up has increased significantly since then. The outturn figure for 2017-18 was around 2.8 million claimants benefitting. The latest recosting that is reflected in this forecast assumes an 83 per cent rate of take-up in 2018-19.

- **Soft drinks industry levy**: the yield for this has been revised down multiple times since it was announced at Budget 2016, when the then Chancellor announced a target of raising £500 million in 2019-20, that would be hypothecated to pay for school sport. As 2019-20 approaches we currently estimate the Government is on track to raise half

that amount. This largely reflects the strength of the response from producers in reformulating drinks so as not to be liable to the levy. We have not been made aware of any change in amounts spent on school sport.

- **Support for mortgage interest**: **switch from benefit to loan**: in Summer Budget 2015, the Government announced that, from April 2018, support for mortgage interest (SMI) will switch from being a non-repayable benefit payment to an interest-bearing loan, secured against a mortgaged property and due to be repaid upon death or the sale of the property.[3] This measure was originally due to reduce spending by £270 million in 2018-19 and to increase lending (which affects debt but not the deficit) by an almost equivalent amount. In March, we revised down the 2018-19 lending effect to £155 million a year. At the time, we noted the high level of uncertainty around take-up of the loan. We have now revised down lending again to £80 million, as take-up has remained sluggish. Figures from DWP show that only 21,000 of the 98,000 claimants originally expected to take-up the loan by the end of 2018-19 have done so, a shortfall of 78 per cent. We now expect take-up to reach around 56,000 by the end of 2018-19, though considerable uncertainty remains.

- **Help to save**: at Budget 2016, the Government announced the introduction of a regular savings account for certain low-income recipients of tax credits and universal credit. In March, we revised our forecast to allow for a delay in the launch, from April to October. The scheme has now been launched, and HMRC has told us there were 67,000 fully operational accounts by 7 October with deposits of £5.7 million to date. We will revisit this in our next *EFO*.

- **HMRC operational delivery:** we have revised down 2018-19 receipts from **making tax digital for VAT**, HMRC's initiative to use software to interact with taxpayers. This reflects our judgement that initial take-up will be slower than we allowed for in our previous forecast, and is based on concerns around wider operational and decision-making capacity in HMRC. As we saw with the change in plans for HMRC's transformation package, there is a risk that projects are crowded out, and this reflects that risk. HMRC has assured us that delivering making tax digital is one of their main priorities, and remain confident that delivery is on track for April 2019. Similarly, following a consultation in summer 2018, HMRC has confirmed that funding for its **CGT payment window** and that it remains on track for an early 2020 implementation date.

- **HMRC's Customs Declaration Service (CDS):** HMRC estimates the number of customs declarations could increase from 55 million to 260 million each year in a no deal scenario, with around 145,000 to 250,000 traders who trade solely with the EU needing to register for the first time. CDS was already being developed well before the EU referendum but the benefits it brings relative to the existing system – the customs handling import export freight (CHIEF) system – are timely. CDS has been built to handle 300 million declarations each year, improve declaration times and provide enhanced digital capability. Its implementation period was initially between 2017 and

[3] If the amount of equity available after the sale is less than the amount owed to the Government then the balance will be written off.

2020, but it is now due to be fully rolled out in March 2019.[4] HMRC believes that the CHIEF system can be successfully scaled up if it is required, and indeed will run it alongside CDS in the initial period. HMRC does not think there will be an impact on tax receipts in either scenario but has also said that the overall customs model *"will not be optimal from day one"* and that improvements would be required to *"reduce friction and costs"*.[5] For now, we note this as a clear risk to our forecasts for customs duties and VAT.[6]

Departmental spending

A.28 From 2019-20 onwards, the NHS settlement and other spending increases result in progressively higher RDEL spending, reaching £25.4 billion in 2023-24. Virtually all this change is reported on the Treasury scorecard. By contrast, the cut to CDEL spending of over £2 billion a year from 2020-21 has not been shown. Indeed, the scorecard shows a £0.1 billion a year increase in CDEL spending on average.

Indirect effects on the economy

A.29 The Government has announced several policy changes in this Budget that we have judged to be sufficiently large to warrant adjustments to our central economic forecast (see Box 3.2 for more details). These include:

- Fiscal policy: The Government has loosened fiscal policy, largely through the increase in health spending announced in June. This boosts real GDP growth by around 0.3 percentage points in 2019, with growth slightly weaker thereafter as the effect of the loosening diminishes. This is expected to leave CPI inflation marginally above target in the medium term.

- Business investment: The Government has announced several changes to capital allowances that are expected to affect the cost of capital faced by firms and therefore the level of business investment. These measures are expected to increase the level of business investment by 0.4 per cent by 2023-24.

- Inflation: We have adjusted our inflation forecast for the freeze to fuel duty and some alcohol duties in 2019-20 and a freeze in the maximum tuition fee charged in England for UK and EU students. These reduce CPI inflation by just over 0.1 percentage points in 2019-20.

- Housing market: There have been several measures announced that are likely to affect the housing market. We expect these to increase house prices by 0.1 per cent in 2021-22 and to reduce house price inflation slightly in 2023-24 following the currently planned end of the Help to Buy scheme in 2022-23. The Government's decision to lift the Housing Revenue Account borrowing cap is expected to increase aggregate housebuilding by an additional 9,000 over the forecast period.

[4] HMRC evidence to the Public Accounts Committee, 5 September 2018.
[5] HMRC evidence to House of Lords European Union Select Committee, 19 July 2018.
[6] For more on our approach to forecasting the effects of Brexit, see our *Brexit and the OBR's forecasts*, OBR Discussion Paper No. 3, October 2018.