A Policy measures announced since November

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 such 'fiscal event', 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 in each department and 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 The Chancellor has kept to his word in announcing no new fiscal policy measures in the Spring Statement. The main measures affecting this forecast are his decision to reduce the proportion of debt that will be issued as index-linked gilts, others announced by UK Government Ministers since November, including in February's local government finance settlement, and decisions taken by the Scottish and Welsh Governments since the Autumn Budget in November. The process for receiving and scrutinising these costings was similar to that described above. We present more information on each of these measures below.

Government policy decisions

UK Government decisions since November

A.3 Costings for the UK Government policy decisions announced since November that are factored into our current forecast are presented in Table A.1.

A.4 **Change in financing remit**: The Government has decided to reduce the proportion of debt that will be issued as index-linked gilts in 2018-19, which we assume continues in the remaining years of the forecast. Interest on index-linked gilts is typically lower than conventional gilts in the early years after issuance and, as shown in Table A.1, this results in higher borrowing over the forecast period. The effect on public sector net debt is larger due to the effect on expected auction premia and is described in Chapter 4.

Local government finance settlement for 2018-19

A.5 **Council tax rises**: The local government finance settlement for 2018-19 gives local authorities the power to increase council tax rates in 2018-19 and 2019-20 by up to 3 per

cent without the need to hold a local referendum, a 1 percentage point increase. The overall effect is neutral in our forecast – the increase in council tax receipts, rising to £825 million in 2022-23, is assumed to finance increased local authority spending. The policy comes on top of recent changes that allow local authorities that deliver adult social care to increase council tax rates by up to a further 3 per cent a year between 2017-18 and 2019-20, subject to 3-year cap of 6 per cent. Together, this means that some local authorities will be able to increase council tax rates by up to 6 per cent in 2018-19 and 2019-20.

A.6 **Business rates retention pilots**: The Government announced a third round of business rates retention pilots, allowing 10 further local authorities to retain more of the business rates they collect than the current 50 per cent, while cutting their grant funding by an equivalent amount. These pilots will run for 2018-19 only and are fiscally neutral by definition, as the estimated value of the additional business rates share to be retained by each authority is equal to the reduction in central government grant funding.

A.7 **Adult Social Care Support Grant**: The Government announced the introduction of an Adult Social Care Support Grant in December 2016, amounting to £240 million of funding for local authorities in 2017-18. In February the Government added a further £150 million in 2018-19, this time "*from anticipated underspend in existing departmental budgets*". We have not adjusted our DEL underspend assumptions for this specific use of underspends, instead taking an overall top-down judgement on the basis of these and other pressures.

A.8 **Rural Services Delivery Grant**: The local government settlement agreement increased the Rural Services Delivery Grant by £31 million in 2018-19, £16 million higher than proposed in the provisional settlement. Once again, this funding is to be met from within previously announced spending limits.

A.9 **Extension of local authority asset sales flexibility**: At Budget 2016 the Government introduced greater flexibility in the way local authorities could spend receipts from the sales of capital assets. Previously these funds could be used only for capital expenditure, but this measure permitted them to be used for some revenue spending on projects expected to generate future efficiency savings. Only funds raised during the period the policy is in effect can be used. Originally this period extended to March 2019, but it has now been extended by three years to March 2022. The costing reflects the likelihood that finding viable projects becomes harder over time, lowering returns in later years.

Other announcements

A.10 **Housing benefit – temporary accommodation**: On 23 November, immediately after the Autumn Budget, the Government announced that, from April 2018, payments towards temporary accommodation for eligible homeless people will no longer be made through universal credit (UC) as planned, but will instead revert to being paid through housing benefit. The previous assumption was that once UC had been rolled out in an area, local authorities would secure temporary accommodation on behalf of claimants before recouping the costs from their UC awards. Where UC has been introduced, DWP estimates that local authority costs have been 15 per cent higher than they would have been under

housing benefit, largely due to the difficulties in recovering costs from UC claimants due to the monthly assessment period. Reverting to use of the housing benefit system means that in some cases local authorities will secure temporary accommodation for claimants by paying the providers of temporary accommodation directly using the claimants' housing benefit awards, with the cost subsidised by DWP. The saving to local authorities rises to £150 million a year by 2022-23. There is a further saving of £45 million a year by 2022-23 as the costs of local authority subsidies for temporary accommodation are lower than the expected costs of UC awards.

A.11 **Recommendations of the Dilnot Commission on social care**: The independent Commission on Funding of Care and Support – the 'Dilnot Commission' – reported in July 2011. Based on its recommendations, in February 2013 the Coalition Government announced reforms to long-term social care in England. At Budget 2013 it pledged to "*implement the £72,000 cap on reasonable social care costs, …and extend the means test to give more people access to financial support for their residential care costs from April 2016*" and that "*the higher employer NICs revenue that arises from the end of contracting-out for members of defined benefit occupational pension schemes will help cover the costs of social care reform for the duration of the next Parliament*". In its November 2015 Spending Review, the Conservative Government delayed the introduction of reforms by four years to April 2020.

A.12 In December, the Government announced that it would not be taking these reforms forward at that date. It plans to publish a green paper on the future of adult social care this summer. The medium-term effects of this decision are small. We had factored in a small cost in terms of higher attendance allowance spending on the assumption that those affected by the Dilnot reforms would be more likely to take up entitlements that they might not otherwise have been aware of. Removing this effect reduces spending by around £120 million a year from 2020-21 onwards. As we have discussed in previous *Fiscal sustainability reports (FSR)*, the long-term cost of the Dilnot reforms was initially expected to build to around 0.3 per cent of GDP over 50 years. It is not clear at this stage what we will be able to include in our projections in respect of long-term Government policy on adult social care in our next *FSR*, which will be published this summer.

A.13 **Help to save**: At Budget 2016, the Government announced the introduction of a regular savings account into which it will top up an individual's savings at a rate of 50 per cent. Certain low-income recipients of tax credits and universal credit can make a maximum contribution of £50 a month for two years, with the option of continuing for a further two years. At maturity, an individual that had saved the maximum £2,400 over four years would receive a £1,200 government top-up. The estimated cost, mainly arising from the additional public spending associated with the government contribution, was just £70 million in 2020-21, rising to around £100 million in 2022-23. This reflected a relatively low take-up assumption, given the limited scope for low-income individuals to save the sums involved.

A.14 At the time of the original costing we gave this a 'high' uncertainty rating, citing take-up and the time that individuals hold onto savings among the main reasons. The Government originally announced that "*accounts will be available no later than April 2018*". It has now decided to slow the pace of the rollout to provide the *"best customer experience possible"* –

full rollout has been delayed to October with a pilot having started in January. HMRC has told us that the IT and other aspects of delivery remain on track. Table A.1 sets out the 5-year costing of this change. We now expect total 'help to save' spending to reach £85 million in 2022-23.

A.15 **Ministry of Defence spending**: The Ministry of Defence has switched £900 million of RDEL spending in 2017-18 into its CDEL budget. This is neutral across spending and borrowing.

A.16 **Post Office investment funding**: The Government has announced an additional £210 million in capital grants for the Post Office, offset by a cut in other spending within the CDEL limit for the Department for Business, Energy and Industrial Strategy (BEIS). This measure is funded from the existing DEL envelope. It is not additional spending and does not affect PSNB. The Government's capital grants to the Post Office are also contained within BEIS CDEL, but we exclude the payment and receipt of central government capital grants to public corporations in PSGI in CDEL and PSGI in AME, since these are intra-government transfers. Instead, we include the gross capital spending by public corporations that is financed by these grants as part of PSGI in AME.

A.17 **Network Rail 'Control Period 6' changes:** Policy changes affecting Network Rail capital spending in the next control period are described in Table A.1.

Table A.1 Costings for Government policy decisions

		£ million					
	Head	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Change in financing remit	Current AME	0	-35	-140	-275	-405	-525
Council tax rises	Receipts	0	+325	+755	+780	+805	+825
	Current AME	0	-325	-755	-780	-805	-825
Business rates retention pilots	RDEL	0	+515	0	0	0	0
	Current AME	0	-515	0	0	0	0
Adult social care support grant[1]	RDEL	0	-150	0	0	0	0
Rural services delivery grant[1]	RDEL	0	-15	0	0	0	0
Local authority asset sales flexibility	Capital AME	-20	-5	+90	+135	+60	0
	Current AME	+20	neg	-90	-80	-45	+15
Temporary accommodation	Current AME	0	+25	+90	+130	+170	+195
Dilnot Commission on social care	Current AME	neg	neg	+25	+120	+120	+110
Help to save	Capital AME	0	0	+25	+20	-10	+5
Ministry of Defence spending	RDEL	+900	0	0	0	0	0
	CDEL	-900	0	0	0	0	0
Post Office investment funding	CDEL	0	+170	+40	0	0	0
	Capital AME	0	-170	-40	0	0	0
Network Rail 'Control Period 6'	Capital AME	0	0	-145	+85	-55	-295
Effect of Government decisions		neg	-15	-145	+145	-165	-495

[1] This measure is funded from the existing DEL envelope. It is not additional spending and does not affect PSNB.
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.

Scottish and Welsh Government decisions since November

A.18 Our UK public finances forecasts are also affected by decisions taken by the devolved administrations. These can affect UK-wide taxes or those that have been fully devolved. There have been examples of both since November. The costings of newly announced policy decisions by the Scottish and Welsh Governments are presented in Table A.2.[1]

A.19 **Minimum unit alcohol pricing in Scotland**: In November, the Supreme Court ruled that legislation relating to the minimum unit price (MUP) of alcohol, initially passed by the Scottish Parliament in 2012, was lawful. In February, the Scottish Government announced the introduction of a 50 pence per unit minimum price that will take effect in May. This will mean that a 330ml bottle of beer with an alcohol content of 5 per cent cannot retail for less than 83 pence, while a 700ml bottle of whisky at 40 per cent alcohol cannot retail for less than £14. The price per alcohol unit embodied in most drinks is already higher than the 50 pence minimum, so only the lowest priced will be affected by the MUP. Almost all will be purchased in the 'off-trade' – namely supermarkets and other shops. Market data suggest that more than half of off-trade sales of beer, cider and spirits would be affected by the MUP, with the largest average price increase, around 25 per cent, for cider.

A.20 Introducing a MUP has no direct implications for tax receipts, but the response of retailers and consumers is likely to reduce alcohol duty receipts. By raising prices, the MUP can be expected to reduce the volume of alcoholic drinks consumed. The measure is expected to reduce receipts by £40 million in 2018-19, before dropping slightly in later years. The declining cost reflects the assumption that the MUP remains at 50 pence in future years, thereby falling in real terms and eroding the consumption effect.

A.21 There are several uncertainties around this central estimate, including the effectiveness of enforcement, the incentive for consumers to switch to either the illicit or cross-border markets, and the possibility that retailers may encourage customers to continue buying by offering discounts elsewhere. The price elasticities applied are based on HMRC's standard alcohol duty costing model and will capture these behaviours to some degree. But the implied price increase for some drinks is larger than any during the period used to estimate those elasticities, so there is a risk that the true behavioural response will not be captured by simply scaling up the estimated effects. On balance, we feel there are more downside than upside risks to revenue so we have made a small downward adjustment to the costing.

A.22 **Scottish income tax rates and thresholds**: In its draft Budget in December, the Scottish Government announced several changes to the rates and bands for Scottish non-savings, non-dividend income tax to take effect from 2018-19. A new 19 per cent 'starter' rate will apply to income above the personal allowance to part-way through the current UK basic rate band. A new 21 per cent 'intermediate' rate will apply to income at the top of the UK basic rate band. The 20 per cent basic rate will be retained, but apply to a narrower band of income between these two new rates. The Scottish Government also increased the higher

[1] For more detailed information on the costings for the devolved taxes see the '*Devolved taxes and spending*' publication produced alongside this *EFO* and available on our website. Policy costings that relate to the devolved taxes should be considered alongside the fiscal consequences set out in the Treasury's fiscal framework agreements with the Scottish and Welsh Governments respectively.

rate from 40 to 41 per cent and the additional rate from 45 to 46 per cent. In February, the Scottish Government announced that the higher rate threshold for 2018-19 would be set at £43,430, £843 lower than it proposed in its draft Budget and £2,920 lower than the threshold in the rest of the UK, where it is due to rise to £46,350. The additional rate threshold of £150,000 remains aligned with that in the rest of the UK.

A.23 These changes generate very small cash giveaways to most taxpayers but larger cash takeaways from a smaller number higher up the income distribution. Despite the behavioural response from higher earners, which is likely to be proportionately large, the net effect of these changes is to increase receipts modestly. The package is expected to generate revenue rising to £270 million a year by 2022-23, most of it Scottish income tax, but some of it additional receipts to the UK Government from income tax and corporation tax and a loss in NICs. The corporation tax and NICs effects are largely driven by those taxpayers assumed to respond to the changes by incorporating. The rise in non-Scottish income tax is due to those that are assumed to migrate from Scotland to the rest of the UK (including those with two residences that can switch their tax-residence between them) and those who switch to paying dividend income tax (which is not devolved).

A.24 The costing is also subject to uncertainty over how the new regime will be implemented. For example, HMRC has said it will not change the way it treats 'relief at source' pension schemes, which will continue to get relief at 20 per cent. This means those within the starter rate band will benefit from an extra 1 per cent relief, which HMRC will not recover, resulting in a small revenue cost. Those within the intermediate rate band will be entitled to relief at 21 per cent, but will only receive it in full if they actively reclaim the extra 1 per cent from HMRC. Many of those affected will be unaware of the change and will not claim their full entitlement, while others will be aware but simply choose not to do so. In each case there is a revenue gain to HMRC. Given the uncertainty around these effects – and the fact that they push in opposite directions – we have made no adjustment for them at this stage.

A.25 **Scottish land and buildings transaction tax (LBTT) first-time buyers' relief**: The UK Government announced a relief for first-time buyers (FTBs) in the Autumn Budget (see Box 4.3 of our November *EFO*). The Scottish Government followed suit in its December draft Budget, raising the threshold below which FTBs will not pay LBTT from £145,000 to £175,000 from June 2018 at a cost of around £5 million a year. Of around 12,000 FTBs expected to be affected by this change, around 7,000 purchasing more expensive properties will pay £600 less in tax, while the other 5,000 will save an average of £290. The cost is small relative to the UK relief. The change in tax paid as a proportion of value of the purchase price (also known as the effective tax rate) is modest for most FTBs. The relief is therefore expected to generate only small increases in prices for affected properties.

A.26 **Non-domestic rates in Scotland**: The Scottish Government has announced a series of measures relating to non-domestic (or business) rates. Reliefs are provided for new build properties, properties used for the provision of childcare and hydro generation properties. There will also be continued provision of some transitional relief into 2018-19. CPI uprating will replace RPI in 2018-19, rather than 2020-21 as previously planned, following the similar acceleration of the UK Government's plans announced in the Autumn Budget.

However, the Scottish Government has not yet committed to using CPI in 2019-20 and so it is assumed to continue using RPI in that year. Collectively these measures reduce receipts by around £90 million a year. The effect on borrowing is offset in our LASFE forecast, where we assume that lower business rates income will mean lower spending by Scottish local authorities. However, as noted by the Scottish Fiscal Commission, the Scottish Government provides funding to local authorities through the Local Government Finance Settlement and retains some discretion over how much it distributes on a year-to-year basis. Because of this, a fall in business rates income will not necessarily translate into lower levels of spending by local authorities in practice.

A.27 **Welsh land transaction tax rates and thresholds**: In October, the Welsh Government announced the initial rates and thresholds for its new land transaction tax (LTT), which replaces stamp duty land tax (SDLT) from April 2018. In December, it responded to the UK Government's first-time buyer's relief by increasing the zero-rate residential threshold from £150,000 to £180,000 for all buyers, rather than just first-time buyers. Overall, buyers will pay less under LTT than they would have done under SDLT for residential transactions below £400,000. These make up the vast majority of transactions in Wales. LTT is more expensive than SDLT on higher-priced properties. This progressive structure is even more pronounced with commercial LTT where the breakeven point is £1.1 million.

Table A.2 Costings for Scottish and Welsh Government policy decisions

		£ million					
		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Scottish Government							
Minimum unit price of alcohol	Receipts	0	-40	-40	-40	-35	-35
Income tax rates and thresholds	Receipts	0	+215	+255	+250	+260	+270
First-time buyers' relief	Receipts	0	-5	-5	-5	-5	-5
Non-domestic rates	Receipts	0	-95	-90	-90	-90	-90
	Current AME	0	+95	+90	+90	+90	+90
Welsh Government							
Land transaction tax	Receipts	neg	-5	-5	-10	-10	-10
Consequential effect on CG funding to the DAs [1]	RDEL	0	-215	-220	0	0	0
Effect of devolved administration decisions		neg	-50	-20	+200	+210	+220

[1] We allow for no impact beyond 2019-20 as this marks the final year of the current Spending Review. This is different to our normal approach at a policymaking fiscal event where we would ask the Government what spending assumptions it wishes us to assume, while conscious that any assumption will be more tentative than firm Spending Review commitments.

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.

Update on previous measures

A.28 We cannot review and re-cost all previous measures each time we produce a new forecast (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 delays

A.29 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 follow 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 for this forecast include:

- **Tax credits debt: enhanced collection**: This was announced at Budget 2017 and was due to begin in April 2018. It transfers the ownership of certain debts owed by tax credits claimants from HMRC to DWP, which has greater legal powers to recover them. In the original costing the measure was expected to generate savings of £60 million in 2018-19 and £180 million in 2019-20. HMRC has told us that IT problems have generated a 6-month delay to implementation. It is not uncommon for IT to be a source of policy delay,[2] but whereas it often relates to the introduction of a new system, this delay relates to the transfer of debts between the existing HMRC and DWP systems. Expected savings have been revised down by 38 per cent across 2018-19 and 2019-20. HMRC is confident that this shortfall will be recouped in future years as the amount of debt in scope is not expected to change. We have been assured that an IT solution will be in place no later than October, but will keep this under review.
- **Help to save**: The delay to this Budget 2016 measure is explained in paragraph A.13. HMRC has told us that operational delivery to the new timetable is on track.

Other policy updates

A.30 We have received updates on several other measures including:

- **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]. The 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. The spending effect has been revised down to £165 million in 2018-19, largely because spending on SMI itself has been revised down. We have revised down SMI lending to £155 million in light of that, but this remains subject to considerable uncertainty regarding the extent to which those entitled to the loans choose to take them up. DWP has told us that all current claimants have been contacted about the intention to convert their award into a loan and of those that have responded, over half have indicated they are not interested while less than a fifth have said they are. Only around 10,000 claimants have so far agreed to take up the loans from April, 90 per cent short of the 100,000 expected by the end of 2018-19.

[2] For example, we discussed four HMRC digital initiatives in Annex A of our November 2017 *EFO*.
[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.

- **High court decision relating to personal independent payment (PIP)**: In March 2017, the Government introduced new PIP regulations on how mental health conditions should be assessed when calculating PIP awards. This was partly in response to a November 2016 legal judgement that would otherwise have increased PIP awards for claimants with certain mental health conditions. In our March 2017 *EFO*, we noted that absent any Government response the judgement would have increased disability benefit spending by £3.7 billion across the then five-year forecast period, but that the policy response chosen at the time would reduce this to just £110 million in 2017-18 with no ongoing cost. Following a further legal challenge, the High Court ruled in December 2017 that the change in PIP regulations relating to 'Mobility Activity 1' was unlawful. The Secretary of State for Work and Pensions informed Parliament that it would not challenge the ruling and will review the cases of all affected claimants. As we describe in Chapter 4, we have revised up our forecast by an average of £0.4 billion a year based on DWP's assessment of what complying with the ruling entails.

- **Help to Buy ISA**: This savings product was announced at Budget 2015 and launched in December 2015. It allows 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 can 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). It is available until November 2019 and Government contributions must be claimed by December 2030. In our March 2015 *EFO* we highlighted the high behavioural uncertainty around the number of savers that would choose to open an account and the amounts they would invest. The original costing estimated that cumulative Government expenditure would reach nearly £700 million by the end of 2017-18. But take-up so far has been well below expectations and the total value of payments in the first 22 months of the scheme – to September 2017 – was just £104 million. We have revised down our forecast by a cumulative 23 per cent relative to our previous forecast. Compared to the original costing, cumulative spending is around 80 per cent (some £1.7 billion) lower up to the end of 2019-20.

- **Apprenticeship levy**: At Autumn Statement 2015 the Government announced the introduction of an apprenticeship levy set at 0.5 per cent of employers' gross pay bill, with an allowance of £3 million per employer, with the revenue available to fund apprenticeship training. At the time we noted this was economically equivalent to a payroll tax and expected the cost to be passed largely onto employees in lower wages. The original costing expected the measure to generate £2.7 billion in 2017-18, rising steadily thereafter. Since the original costing we have made regular downward adjustments to our earnings forecast and, though this has been partly offset by higher expected employment growth, the overall effect is to lower the apprenticeship levy forecast. The levy came into force in April 2017 and HMRC statistics show that £1.8 billion of cash receipts have been received in the first 9 months. Our latest forecast is that this will raise £2.6 billion in 2017-18 and a cumulative £10.7 billion in its first four years, an 8 per cent drop from the original costing.

- **HMRC operational measures**: In Summer Budget 2015, the Government announced a large package of HMRC operational measures that targeted evasion and non-compliance.[4] Collectively they were expected to raise close to £3 billion a year by 2020-21. For many, 2017-18 is the first full year that will provide outturn data, though it is often difficult to separate the additional effect of a single measure from HMRC's wider compliance activity – a fact that makes it challenging to scrutinise this type of costing in the first place. Nevertheless, HMRC has told us it expects these measures to raise £655 million in 2017-18, higher than the original estimate of £610 million. As the outturn data incorporating this yield (or the true yield, which may be higher or lower) forms the baseline for our forecast, no further adjustments are necessary. We will carry out a full evaluation of these costings when more information is available.

- **Accelerated payments**: HMRC has been issuing accelerated payment (AP) and follower notices since August 2014. These require those involved in certain tax avoidance cases to pay the disputed amount upfront, and so bring forward revenue that HMRC would have received eventually. While the total yield from AP measures has been close to that originally estimated, uncertainty around timing has often required us to adjust our forecast profile. For some large business cases, HMRC has updated its forecast of the dates when tax would have been paid if AP measures had not been introduced. This has not affected the timing of cash receipts (which have already been received) but has shifted £320 million of corporation tax from 2018-19 to 2017-18. Another adjustment has been to account for the faster than expected decline in the usage of disclosed avoidance schemes, as we have previously reported.[5] Overall, the latest AP forecast has lowered 2017-18 self-assessment income tax receipts by £275 million, with a further £155 million reduction in 2018-19.

- **Corporate interest restriction**: This Budget 2016 measure brought in a set of rules designed to restrict the tax deductibility of corporate interest expense. It became effective from April 2017, but we do not yet have outturn data. The original costing expected to raise an average of £1 billion a year in the four years to 2020-21. We have revised this down to £0.9 billion a year. This is mainly due to new modelling that makes use of updated HMRC survey data on the interest flows of sampled large corporate groups. The sample captures a large proportion of total UK interest flows, but the amount restricted, as in the original costing, can be sensitive to the positions of a relatively small number of large groups at the time of the survey, and this is unlikely to remain stable over a five-year period.

- **Offshore property developers**: At Budget 2016, the Government introduced legislation extending corporation tax liability to include all profits made from UK land by overseas property developers and set up a dedicated taskforce to enforce it. The measure was initially expected to yield an average of £535 million a year in the four years to 2021-22, but several changes since then have markedly lowered the forecast. In November

[4] In total there were 12 measures that were combined into the following six lines on Treasury's July 2015 scorecard: 'large business: enhanced compliance', 'specialist personal tax: enhanced compliance', 'wealthy: enhanced compliance', 'tackling illicit alcohol and tobacco', 'hidden economy' and 'local compliance'.
[5] See Johal, *Evaluation of HMRC anti-avoidance and operational measures*, OBR Working Paper No.11, available on our website.

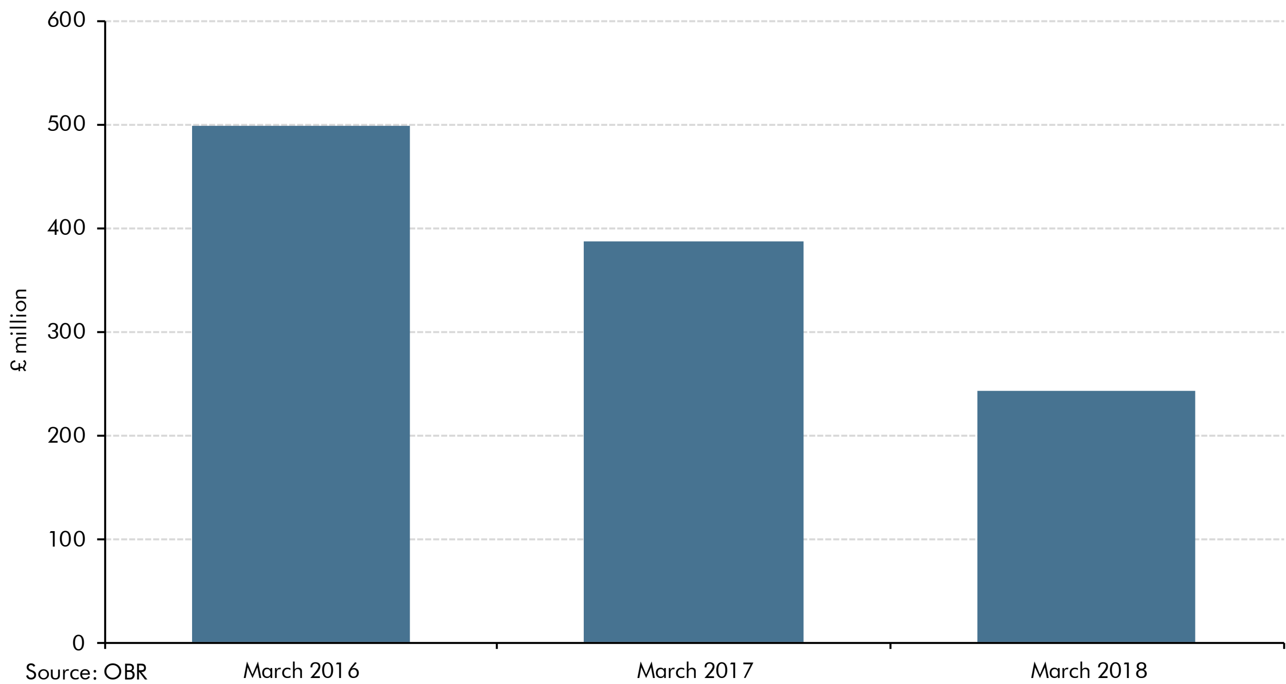
2017 HMRC provided information that led us to assume fewer offshore developments and a longer average time for each to be completed. In this forecast, we make two further revisions in light of recent trends in the property market – first, weaker demand for high-value London residential properties, and second, the increase in labour-related construction costs. Each of these four factors has reduced the expected level of developers' taxable profits and, taken together, lower the costing by just under half, to an average of £315 million a year across the same four-year period.

- **First-time buyers' relief**: At Autumn Budget 2017, the Government announced that it would allow first-time buyers purchasing houses under £500,000 to claim a relief on their stamp duty land tax (SDLT). Properties bought for up to £300,000 will be entirely zero-rated while at prices above that they will be subject to a 5 per cent charge on the value between £300,001 and £500,000. In November we noted that the behavioural response to these changes was subject to significant uncertainty, which comes on top of the existing challenges associated with forecasting the number and price distribution of residential property transactions. The measure was due to cost £125 million in the remaining months of 2017-18 and £560 million in 2018-19, rising steadily to £670 million in 2022-23. At the time of closing our current forecast, HMRC had administrative data covering the first 71 days that the relief has been in effect. This suggests that so far it has cost more than originally expected – the number of sales benefitting has been broadly as expected, but their average price has been slightly higher than assumed. While this early evidence should be treated with caution, there is no clear reason why the higher average prices should be treated as a temporary phenomenon. We have therefore reflected them in our forecast for future years, lowering SDLT receipts by around £100 million a year from 2018-19 onwards. This suggests the annual cost of the relief could be around 15 to 20 per cent higher than expected. But further revisions to the cost of this relief can be expected as more information becomes available, including HMRC's first official statistics on the relief on 26 April.

- **Soft drinks industry levy**: At the time of announcement, this Budget 2016 measure was expected to raise £520 million in 2018-19 and progressively lower amounts in later years, as producers responded by lowering the sugar content in their drinks in order to reduce their liability. There was also an allowance for some non-compliance. Originally, we were told that the Government intended to set levy rates to meet a revenue target of £500 million in 2019-20, but, despite each of our forecasts since 2016 falling short of that target (see Chart A.1), the rates have not been adjusted from those initially announced. We first revised the forecast down in March 2017 to reflect producers reformulating their drinks sooner and more aggressively than originally assumed. This was partly offset by a policy change that brought some small importers within scope of the levy. We revised it down further in November after significant revisions to the data underpinning the estimated yield suggested a much smaller tax base. We have now revised it down again, after HMRC provided new information suggesting that the extent of reformulation was greater still. Our forecast for 2018-19 is now £240 million, less than half the original costing, and the downward revision is applied in all subsequent years. In Budget 2016, the Government presented the levy

as being hypothecated to 'pay for school sport', but the receipts shortfall has not led to changes in the associated spending commitments.

Chart A.1: Soft drinks industry levy forecast in 2019-20



Source: OBR