A Budget 2020 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 Across all measures, we have certified all but three as reasonable and central. These were:

- The effect of **delaying the managed migration of disability living allowance cases to personal independence payment** (PIP): modelling challenges related to a previous change to this policy made it impossible to isolate the effect of the new policy from corrections and other factors affecting the pre-measures baseline.
- The **introduction of an 18-month minimum review period in the PIP regime**: lack of time to scrutinise the costing. We have used the Government's estimates in this forecast and will return to them in our autumn forecast.
- The effect of the **NHS pension scheme paying certain members' annual allowance charges in 2019-20**: insufficient information to determine the reasonableness of the estimates that had been provided. This policy was announced by the Secretary of State for Health and Social Care before the election. Its effect depends on how clinicians respond to the offer, for example in terms of opting back into the scheme if they had left it to avoid such charges or increasing their hours if they had been turning down shifts for the same reason. No management information had been collected on the response to the policy since its announcement. We have used the Government's estimates in this forecast. Firmer information should be available by the autumn.

A.3 Table A.2 reproduces the scorecard alongside our subjective assessment of the uncertainty around each costing.[1] Table A.3 reports the effect of non-scorecard costings.

[1] There are further details in Chapter 3 and in the Treasury's *Budget 2020 Policy costings document*, which briefly summarises the methodology used to produce each costing and the main areas of uncertainty within each.

A.4 The costings process worked reasonably efficiently for this Budget, with more notes submitted to us earlier than has typically been the case in previous Budgets – helped in part by work that had already been done for the aborted Budget in the autumn.

Government policy decisions

A.5 Table A.1 presents the aggregate direct and indirect effects of all new policy announcements, while Tables A.2 and A.3 present the measure-by-measure breakdowns.

Table A.1: Summary of the effect of Government decisions on the budget balance

	£ billion					
	Forecast					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total effect of Government decisions	**0.6**	**-12.3**	**-24.0**	**-22.5**	**-25.4**	**-29.1**
Direct effect of policies on the scorecard	**0.6**	**-17.9**	**-36.4**	**-38.5**	**-41.2**	**-41.9**
of which:						
RDEL spending[1]	-2.5	-14.9	-27.2	-31.9	-35.6	-38.6
CDEL spending[1]	0.0	-7.0	-16.7	-19.2	-20.0	-20.7
Use of direct Brexit fiscal savings	0.0	4.3	5.0	7.1	11.3	14.6
Receipts	1.0	1.4	3.8	7.1	7.6	7.5
Other AME spending	2.1	-1.6	-1.3	-1.7	-4.4	-4.7
Direct effect of non-scorecard policies	**0.0**	**2.3**	**5.3**	**6.3**	**7.4**	**5.6**
of which:						
RDEL spending[1]	-0.4	-0.3	0.2	0.6	0.6	-0.3
CDEL spending[1]	0.5	1.3	3.3	3.8	3.9	4.1
Receipts	0.0	0.6	0.9	0.9	1.0	1.0
AME spending	0.0	0.6	1.0	1.0	1.9	0.8
Indirect effect of Government decisions	**0.0**	**3.3**	**7.1**	**9.7**	**8.4**	**7.2**

[1] The change in 2024-25 is relative to a baseline that assumes DEL would otherwise have remained constant as a share of GDP.
Note: This table uses the Treasury scorecard convention that a positive figure means an improvement in PSNB, PSNCR and PSND.

A.6 The Government has announced a large Budget giveaway, with public spending moved to a much higher path than the previous plans that were reflected in our March 2019 forecast. It has financed this in part via the direct fiscal savings associated with Brexit – the contributions no longer made, less the divorce settlement, and the customs duties no longer remitted to the EU – and via cancelling the corporation tax cut that was due in April 2020. But for the most part higher spending is financed via higher borrowing.

A.7 The large and sustained fiscal easing provides a temporary boost to real economic activity and leaves the cash size of the economy permanently larger via its effect on whole economy inflation. This boosts all the major tax bases, raising receipts. The effect of the Budget package on borrowing and interest rates raises debt interest spending. And since more than one pound in ten from higher departmental current spending goes on pension contributions, the medium-term net cost of public service pensions is reduced materially.

A.8 The new migration regime raises borrowing by reducing population and receipts growth, but the effect is tempered by the foregone population growth being focused among the lower paid, reducing means-tested welfare spending and limiting the effect on income tax. A higher path for the National Living Wage reduces borrowing slightly.

Treasury scorecard of policy decisions

A.9 Table A.2 reproduces the Treasury's scorecard alongside our subjective assessment of the uncertainty around each costing.[2]

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

		Head[2]	£ million[1]						Uncertainty
			2019-20	2020-21	2021-22	2022-23	2023-24	2024-25[2]	
Investing in excellent public services									
	Spending review								
1	Spending Round 2019 and set resource envelope for the Comprehensive Spending Review 2020	Spend	-2,530	-12,600	-27,225	-32,095	-36,085	-42,320	N/A
2	Delivering public service commitments including on health, schools, criminal justice system (resource spending)[3]	Spend	0	-1,430	-2,685	-2,795	-2,825	-	N/A
3	EU contributions: benefit from contributions no longer paid and customs duties retained	Spend	0	+4,340	+4,990	+7,130	+11,250	+14,605	N/A
4	Farm Support: domestic direct payments[4]	Spend	0	-2,710	-	-	-	-	N/A
	Delivering excellent services								
5	National Health Service: 40 hospitals, diagnostics, operational capital[5]	Spend	0	-1,065	-	-	-	-	N/A
6	Immigration Health Surcharge: increase to £624 with £470 rate for children and extend to EEA nationals	Tax	0	+150	+355	+355	+360	+355	Medium-High
7	Pensions: increase annual allowance taper threshold and adjusted income limit, reduce minimum annual allowance	Tax	0	-180	-315	-450	-560	-670	Very High
8	Prisons: maintenance[4,5]	Spend	0	-175	-	-	-	-	N/A
9	Policing: counter terrorism[4]	Spend	0	-80	-	-	-	-	N/A
10	Safer Streets Fund: CCTV and street lighting[4,6]	Spend	0	-15	-	-	-	-	N/A
11	Public Works Loan Board: increase main rate, with reduced rates for social housing and infrastructure	Spend	+105	+60	+175	+205	+270	+325	Medium

[2] We present a more detailed tax and spending breakdown of each costing in a supplementary table that is available on our website.

Supporting people and families									
	Tax								
12	National Insurance: increase Primary Threshold and Lower Profit Limit to £9,500 in April 2020	Tax	*	-2,110	-2,185	-2,360	-2,370	-2,370	Medium
13	Fuel duty: freeze for 2020-21	Tax	0	-525	-530	-540	-555	-560	Medium-Low
14	Alcohol Duty: freeze all rates for 2020-21	Tax	-40	-285	-295	-305	-310	-320	Medium-Low
15	VAT: zero rate e-publications	Tax	0	-60	-175	-185	-190	-200	Medium-High
16	National Insurance: NICs holiday for employers of veterans in first year of civilian employment	Tax	0	0	-15	-20	-25	-25	Medium
17	VAT: abolish VAT for female sanitary products from January 2021	Tax	0	-5	-15	-15	-15	-15	Medium-Low
18	Vehicle Excise Duty: change classification of new motorhomes from 12th March 2020	Tax	*	-15	-20	-25	-30	-35	Medium
	Spending								
19	Personal Independence Payments: reduce frequency of assessments	Spend	0	0	0	-55	-75	-90	-
20	Neonatal Leave: new entitlement to up to 12 weeks paid leave	Spend	0	0	0	0	-15	-15	Medium-High
21	Housing Benefit: further shared accommodation rate exemptions	Spend	0	0	0	0	-10	-15	Medium
22	Rough sleeping[4,5]	Spend	0	-60	-	-	-	-	N/A
Backing business									
23	Capital Allowances: increase structures and buildings allowance rate to 3%	Tax	-15	-90	-165	-210	-260	-295	Medium
24	Research and Development Expenditure Credit: increase rate to 13%	Spend	0	*	-170	-275	-300	-310	Medium-High
25	Employment Allowance: increase from £3,000 to £4,000	Tax	0	-445	-455	-465	-470	-475	Medium-Low
26	Business Rates: increase retail discount to 50%, and extend to cinemas and music venues for 2020-21	Tax	+10	-270	-15	0	0	0	Medium
27	Business Rates: £1,000 discount for pubs with rateable value of less than £100,000 for 2020-21	Tax	*	-20	*	0	0	0	Medium-Low
28	Corporation Tax: relief for pre-2002 intangible fixed assets	Tax	-5	-25	-60	-95	-140	-185	High
29	Enterprise: business productivity and locally delivered business support	Spend	0	-20	-	-	-	-	N/A
Levelling up and getting Britain building									
30	Spending Round 2019 and set capital envelope for the Comprehensive Spending Review 2020	Spend	0	-2,450	-13,690	-14,465	-13,610	-22,500	N/A
31	Delivering investment commitments including on transport, health, justice, education, R&D (capital spending)[7]	Spend	0	-3,290	-4,315	-6,160	-8,150	-	N/A
32	Housing: building safety fund[4,5]	Spend	0	-1,215	-	-	-	-	N/A
33	Housing: brownfield housing fund[5]	Spend	0	-95	-	-	-	-	N/A
34	Culture: cultural investment fund, parklife, national museums maintenance[4,5]	Spend	0	-95	-	-	-	-	N/A

Growing a greener economy									
35	Ultra low emission vehicle grants[4,5]	Spend	0	-140	-	-	-	-	N/A
36	Air Quality[5]	Spend	0	-175	-	-	-	-	N/A
37	Renewable Heat Incentive: extend	Spend	0	0	-10	-30	-35	-35	Medium
38	Plastic Packaging Tax: 30% recycled content threshold and £200 per tonne	Tax	0	0	0	+240	+235	+220	High
39	Red Diesel: remove relief for sectors other than rail, home heating and agriculture	Tax	0	0	+15	+1,575	+1,640	+1,645	High
40	Climate Change Levy: two year extension to climate change agreement scheme and open to new entrants	Tax	0	*	-5	-5	-190	-190	Medium-Low
41	Climate Change Levy: increase gas rate in 2022-23 and 2023-24, freeze liquid petroleum gas and other commodities	Tax	0	0	0	+130	+260	+270	Medium-High
42	Capital Allowances for Business Cars: extend first year allowance on zero emission cars and raise eligibility criteria	Tax	0	*	-5	+10	+70	+110	Medium-Low
43	Carbon Price Support: freeze for 2021-22	Tax	0	0	-20	-15	-15	-15	Medium-Low
44	Vehicle Excise Duty: exempt zero emission vehicles from the expensive car supplement	Tax	0	-10	-15	-20	-30	-45	Medium-Low
A fair and sustainable tax system									
45	Corporation Tax: maintain at 19%	Tax	+930	+4,635	+6,120	+6,680	+7,075	+7,500	Medium
46	Capital Gains Tax: reduce the lifetime limit in entrepreneurs' relief to £1,000,000	Tax	+5	+215	+1,120	+1,470	+1,670	+1,820	Very High
47	Stamp Duty Land Tax: 2% non-UK resident surcharge	Tax	0	+250	-355	+35	+105	+105	High
48	Tobacco Duty: extend RPI plus 2ppt escalator and additional 4ppt for hand rolling tobacco in 2020-21	Tax	+5	+30	+35	+30	+15	+5	Medium-High
49	Income Tax: top slicing relief amendments	Tax	0	*	-15	-15	-15	-20	Medium-Low
50	Digital Services Tax: technical changes	Tax	+65	-5	*	*	*	+70	Medium-Low
51	Corporate Capital Loss Restriction: companies in liquidation	Tax	*	*	-5	-5	-5	-5	Medium-High
52	Aggregates Levy: freeze for 2020-21	Tax	0	-10	-10	-10	-10	-10	Low
53	Heavy Goods Vehicle VED and Levy: freeze in 2020-21	Tax	0	-10	-10	-10	-10	-10	Low
54	Car Fuel Benefit: increase by CPI in 2020-21	Tax	0	+5	+5	+5	+5	+5	Low
55	Savings: maintain £20,000 limit for adult ISA in 2020-21	Tax	0	*	*	*	*	+5	Medium-Low
Avoidance, evasion, and unfair outcomes									
56	Notification of uncertain tax treatment	Tax	*	+10	+20	+40	+45	+45	Very High
57	Tackling abuse in the construction industry scheme	Tax	0	0	0	+20	+20	+15	Medium-High
58	Conditionality: hidden economy	Tax	0	0	+5	+35	+50	+65	Very High
59	Investment in HMRC to improve tax compliance	Tax	+55	+280	+855	+1,065	+1,075	+595	Medium-High
60	Research and Development PAYE Cap: delay by one year and updated design	Spend	0	0	-60	-130	-65	-35	Medium-High
61	Housing Benefit: investment in fraud detection by Local Authorities	Spend	0	+115	+140	+125	+105	+60	High
Financial transactions									
62	Public sector net borrowing impact of financial transaction changes[8]	Spend	+2,160	+2,530	+2,900	+3,155	+990	+985	N/A

	Previously announced policy decisions								
63	Independent Loan Charge Review : implementation of the recommendations	Tax	-30	-305	-245	-70	-70	-25	Medium-High
64	Windrush: tax exemption for compensation payments	Tax	*	-5	-5	*	*	*	High
65	Protecting Your Taxes in Insolvency: delay start date to December and extend to Northern Ireland	Tax	-5	-30	-85	-35	+5	+5	Medium-High
66	Company Car Tax: temporary reduction for new cars registered from 6th April 2020	Tax	0	-50	-50	*	0	0	Medium-High
67	Stamp Tax on Shares: connected company transfers	Tax	0	+5	+5	+5	+5	+5	High
68	VAT: change start date for reverse charge for building and constructions services	Tax	-85	-60	+20	+15	0	0	Low
69	Business Rates Retention Pilots: 2020-21 pilots in Devolution Deal areas and the Greater London Authority	Spend	0	-150	+45	0	0	0	Low
70	Negative Revenue Support Grant: eliminate in 2020-21	Spend	0	-65	0	0	0	0	Medium-Low
71	Communities: youth investment fund[4,5]	Spend	0	-80	-	-	-	-	N/A
72	Welfare: restrict EEA migrants' access to non-contributory benefits for first five years in UK from January 2021	Spend	0	*	+5	+25	+50	+80	Medium-High
73	Child Benefit and Child Tax Credits: end exporting for children outside the UK from January 2021	Spend	0	*	*	*	+5	+5	Medium-High
74	Universal Credit: delay surplus earnings threshold reduction by one year	Spend	0	-75	0	0	0	0	Medium-High
75	Universal Credit: additional support for claimants transferring to pension credit	Spend	0	-5	-10	-10	-15	-25	Low
76	Universal Credit: changes to severe disability premium regulations	Spend	-10	-5	-5	*	*	0	Medium
	Total policy decisions[9]		**+605**	**-17,900**	**-36,430**	**-38,530**	**-41,150**	**-41,920**	
	Total spending policy decisions[9]		-355	-19,255	-40,185	-45,640	-48,780	-49,440	
	Of which current		*-2,545*	*-13,765*	*-24,910*	*-27,860*	*-27,680*	*-27,660*	
	Of which capital		*+2,190*	*-5,490*	*-15,275*	*-17,775*	*-21,100*	*-21,780*	
	Total tax policy decisions[9]		*+960*	*+1,355*	*+3,755*	*+7,110*	*+7,625*	*+7,520*	

* Negligible.

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

[2] Many measures have both tax and spend impacts. Measures are identified as tax or spend on the basis of their largest impact.

[3] The overall spending level in 2024-25 has been adjusted for the costs of these measures. Settlements for 2024-25 w ill be set out at the Spending Review after the Comprehensive Spending Review 2020.

[4] The overall resource spending envelope has been adjusted to include funding for this measure in future years. Settlements over the period 2020-21 to 2023-24 w ill be set out in full at the Comprehensive Spending Review 2020.

[5] These costs are additional capital spending in 2020-21. Future profiles and total programme costs for some specific programmes are detailed elsew here in the document. Settlements beyond 2020-21 w ill be set out in full at the Comprehensive Spending Review 2020.

[6] Safer Streets Fund: There is a total of £25m in this Fund, of w hich £10m is funded from the Home Office settlement.

[7] Departments have existing 2020-21 capital budgets. Some additions w ere made to 2020-21 capital budgets at the Spending Review 2019 and further additions are made at this Budget. Years beyond 2021-22 represent the overall capital envelope, w hich w ill be allocated to departments at the Comprehensive Spending Review 2020. Some specific capital allocations are set out throughout this document.

[8] Further details on financial transactions is set out in the financial transaction table.

[9] Totals may not sum due to rounding.

Policy decisions not on the Treasury scorecard

A.10 Our forecasts include the effect of policy decisions that the Treasury chooses not to present on its scorecard. Sometimes such decisions are neutral for borrowing (the focus of the scorecard), but nevertheless affect our tax or spending forecasts. Sometimes they were announced some time before the Budget or by another department. With a year having passed since our March 2019 forecast, there are 29 policy decisions included in our forecast but not reported on the Treasury's scorecard (see Table A.3).

AME spending measures

A.11 Non-scorecard measures affecting welfare spending and local authority spending include:

- **Universal credit: further delays**: the Government has once again extended the managed migration phase of the rollout of universal credit (UC) – this time by a further nine months. Since December 2014 we have been adding our own six-month contingency to this element of the rollout, given repeated previous delays. We have now decided to extend this by a further 18 months, taking our assumed end date a full two years later than DWP's assumption. This decision reflects both the accumulated experience of the past seven years and the greater emphasis in recent Ministerial statements around deliberately slowing the pace of managed migration to "*protect the interest of moving claimants*". This implies the rollout will finish in September 2026, almost nine years behind the original schedule. This saves around £0.7 billion a year by 2024-25, as the costs for those who gain under UC and transitional protection paid to those who would lose out from a managed move to UC are postponed.

- **Personal independence payment: consequences of rollout delay**: this measure has three related elements. The rollout of personal independence payment (PIP) to replace the existing disability living allowance (DLA) – known as the **'full PIP rollout' – has been delayed once again**, this time by an additional two years. The new end date of July 2023 is now seven years behind the original schedule. One of the consequences of these delays is that the rollout will not be completed until after disability benefits have been devolved to Scotland. The Scottish Government has confirmed that from April 2020 **DLA recipients in Scotland will no longer be invited to move to PIP**. The combined impact of these measures is to **increase the number of scheduled award reviews for working-age claimants.**

- **Correcting the underpayment of child tax credit for families with disabled children:** for the third time in four years the Government has identified families of disabled children that have been underpaid the amount of child tax credit (CTC) due to them. A higher level of CTC is available for disabled children in receipt of either disability living allowance or personal independence payment. HMRC relies on a data feed from DWP to identify those eligible. At Autumn Statement 2016 the Government announced it would make payments to 28,000 families that were underpaid between 2011 and 2014. By 2017 a further 17,000 affected families had been identified, and they too have now been paid. HMRC and DWP have now discovered another 24,000 families and the Government plans to pay them towards the end of 2019-20 and in 2020-21.

- **Opposite-sex civil partnerships: state pension consequentials:** the December 2019 extension of civil partnerships to opposite-sex couples has a small impact on state pension spending. This relates to the ability of some individuals to derive or inherit state pension from a partner. It costs £10 million a year by the end of the forecast.

- **Public lavatories relief:** at Budget 2018 the Government announced a mandatory relief from business rates for public lavatories, to take effect from April 2020. The legislation required to implement this measure was introduced to the House of Lords on 18 June 2019, but following the prorogation of Parliament in September, the Bill was delayed. In the absence of a precise legislative timetable we do not know when this relief will take effect, so have removed the cost of this measure from our forecast.

- **New pension scheme for former employees of Bradford & Bingley and Northern Rock:** the Government has decided to establish a new unfunded pension scheme for former employees of Bradford & Bingley (B&B) and Northern Rock. It expects to sell the assets of the existing schemes in 2023-24. The schemes are closed to new entrants and to accruals, so the only effect on borrowing will be payments to retired scheme members.

- **NHS pensions: 'scheme pays' refund:** in November 2019 the Government announced a short-term measure to compensate members of the NHS Pension Scheme for charges incurred from the annual allowance in 2019-20 if they choose to use 'scheme pays'. Members of many public sector defined benefit pension schemes whose pension accruals exceed the annual allowance can opt to have the tax charge paid by their pension scheme, a process known as 'scheme pays', rather than via self-assessed income tax. In return, the pension scheme takes the tax from the individual's pension, with interest, at retirement. This measure in effect means the Government will pay the charge but then not recoup the cost upon retirement, increasing long-term pension costs. The offer is expected to increase the use of 'scheme pays' in the NHS scheme, which will increase AME spending, and to increase hours worked by scheme members, which will generate additional annual allowance charges. The Government was not able to provide any substantive evidence on either of these behaviours. Nor were we told whether the Department for Health would receive additional DEL funding.

Tax measures

A.12 The non-scorecard measures affecting tax receipts include:

- **High-income child benefit charge: freezing threshold**: the high-income child benefit charge (HICBC) in effect removes, in part or in full, child benefit awards from households with at least one person with income over £50,000. Since its introduction, the policy thresholds have been frozen in cash terms, but at Autumn Statement 2016, following Government advice, we changed the default policy assumption to allow for the thresholds to be uprated by CPI inflation from 2020-21 onwards. We have now been advised that the default policy assumption is to keep the threshold frozen in cash terms, which lowers spending and raises income tax receipts relative to the indexed thresholds. This lowers borrowing by £0.2 billion a year by 2024-25.

- **Capital allowances: clawback from the structures and buildings allowance:** the Government announced the structures and buildings allowance at Budget 2018. On the same day, HMRC published a technical note that set out how much of the benefit gained from the allowance may eventually be clawed back through chargeable gains on disposal of the asset. This policy parameter has now been reflected in our forecast.

- **Share loss relief**: individuals or companies can gain share loss relief when investing in an eligible company. Eligibility requires that the company trades mainly in the UK. This measure widens the scope of the relief so it applies to companies trading anywhere.

- **Tobacco duty escalator: impact of Autumn Budget cancellation:** the Government's decision to cancel November's Budget and hold a General Election delayed the Budget day duty rise and ended the tobacco duty escalator, to which it was committed to the end of the Parliament. In this Budget the Government has reinstated the duty escalator, which is again due to run until the end of the current Parliament.

- **VED on motorhomes**: a new EU regulation requires all motorhomes registered from 1 September 2019 to be taxed based on their CO_2 emissions – an increase of £1,870 in the first year for the most polluting vehicles. This increases our pre-measures VED forecast by around £30 million a year. The Budget reverses this change.

- **VAT on fund management**: this measure updates UK law following two recent decisions by the European Court of Justice. It exempts two forms of fund management fees from VAT with effect from April 2020: the management of defined contribution pension funds and certain pooled pension schemes, and the management of state-supervised funds that invest in real estate. Most providers of administration services currently tax their outputs, enabling them and their clients to recover input VAT on the services. This measure removes this option, making the supplies of administration services exempt instead. Removing the scope for service providers to recover input VAT increases VAT receipts. There is significant uncertainty over the tax base and we rate this costing 'high' uncertainty overall.

- **VAT postponed accounting:** new VAT rules allowing postponed accounting for most import VAT materially affects the profile of cash receipts in 2020-21 and 2021-22, but they do not affect when the underlying VAT liability was incurred so we have assumed that they will not affect accrued VAT receipts.

- **The EU Directive on administrative cooperation (DAC 6):** this Directive is an anti-avoidance initiative that requires 'intermediaries' – "*those who design and market cross-border arrangements, and those who provide aid, assistance or advice in respect of such arrangements*" – to report certain cross-border arrangements to HMRC. The information is then subject to an automatic and mandatory exchange of information between HMRC and the tax authorities in the EU member states. The Government remains committed to DAC 6. This measure generates additional yield by changing the behaviour of taxpayers and provides additional information to guide HMRC's compliance activities. Evidence from the costings of past offshore measures seeking to

deter non-compliance and from previous information exchanges has led us to assign this costing a 'high' uncertainty rating. The directive came into force in June 2018 and the first information exchange is expected to take place in October 2020.

- **Probate fees: reversal:** the Government has scrapped its plans to change the fees payable for an application for a grant of probate. Depending on the value of the estate, the rates were initially due to increase between £300 and £20,000 from May 2017. That change did not make it through Parliament. Following a delay, the Government tried again with rates of between £250 and £6,000 from April 2019, but this did not make it into Parliament at all. This removes around £160 million a year from receipts.

- **Delay in the sales of further tranches of 5G spectrum licenses:** this policy delay is described in Chapter 3. In the National Accounts, the auction proceeds are accrued over a 20-year period, so the annual impact on receipts is relatively modest. Auctions are inherently uncertain so we give this measure a 'very high' uncertainty rating.

Fiscally neutral measures

A.13 Several policies shift spending and receipts between categories but are neutral (or broadly neutral) for borrowing. These include:

- **Council tax rates:** the local government finance settlement for 2020-21 allows local authorities to increase council tax by a core principle of up to 2 per cent in 2020-21 without the need to hold a local referendum, with additional flexibilities for some authority types. It also allows those local authorities that deliver adult social care to raise council tax by an additional 2 per cent. In recent years the majority of affected councils have increased rates by the full amount. This raises council tax receipts and local authority spending financed by them by an average of £0.6 billion a year.

- **High Speed Two Ltd (HS2) VAT treatment:** an HMRC investigation into the company responsible for delivering the Government's HS2 rail network concluded that it had been erroneously reclaiming VAT since 2014. Rather than increase HS2 funding for this, the Treasury has made HS2 eligible for VAT refunds. HS2 has repaid £0.6 billion to HMRC, which boosts our pre-measures VAT forecast in 2019-20. The Government met this cost for HS2, adding £0.6 billion to RDEL spending. For future years, the new VAT treatment will result in the inclusion of HS2's full liability in VAT receipts, offset exactly by higher VAT refunds. We have assumed these payments and refunds grow in line with our VAT forecast and will reflect HS2's funding profile in our next forecast. **S4C VAT treatment** reflects a similar situation for the Welsh language television channel, where the Treasury has made S4C eligible for VAT refunds.

- **Devolving disability benefits spending to the Scottish Parliament:** the Scotland Act 2016 makes provision to devolve several social security benefits to the Scottish Parliament. From April 2020 this will include personal independence payment, disability living allowance, attendance allowance, severe disablement allowance and industrial injuries

disablement allowance. This is a close-to-neutral switch for our forecast as it replaces DWP AME with Scottish Government AME.[3]

- **The Government's response to the ONS reclassifying HM Land Registry (HMLR) and Companies House from public corporations to the central government sector**. Both changes are fiscally neutral, switching spending from AME to DEL.

- **Green gas levy**: the Government has announced a green gas levy on suppliers to the gas grid. We assume the levy is a tax on production and the corresponding payment to producers of biomethane is a subsidy.

Other spending measures

A.14 Non-scorecard measures that impact DELs and Scottish Government AME include:

- **Public Expenditure statistical analyses (PESA) updates:** departments' final plans for 2019-20 as published in PESA 2019, plus our assumptions regarding underspends.

- **Supplementary estimates**: the supplementary estimates for 2019-20 were laid in February 2020. The changes in the supplementary estimates for 2019-20 that are not on the scorecard include an increase in resource DEL of £0.4 billion, a transfer of around £60 million of spending from capital to resource DEL, and a transfer of £0.5 billion of capital DEL from 2019-20 to 2020-21. The Treasury scorecard includes the £1.9 billion increase in resource DEL in 2019-20 from the 2019 Spending Round.

- **Scottish Government AME restatement:** this changes the methodology the Government uses to forecast Scottish Government spending. It is now assumed that the block grant grows in line with overall RDEL (excluding depreciation) in each year of the forecast, while the block grant adjustments are based on the relevant tax and welfare forecasts.

- **Assumed underspend: current:** as described in Chapter 3, we have assumed that 5 per cent of the addition to RDEL plans at the Budget goes unspent.

- **Assumed underspend: capital:** for capital spending we have assumed that 20 per cent of the additional funding goes unspent, reflecting past experience.

- **Other non-scorecard DEL changes:** these are discussed in Chapter 3.

[3] Please see our *Devolved taxes and spending forecasts* publication, published alongside this *EFO* for more details.

Table A.3: Costings for policy decisions not on the Treasury scorecard

	Head	£ million						Uncertainty
		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	
AME spending measures								
Universal credit: further delays	Total	0	-5	+30	+250	+905	+650	Medium
	AME	*0*	*-5*	*+30*	*+250*	*+905*	*+650*	
Personal independence payment: consequences of rollout delay	Total	-5	+90	+230	+210	+165	+155	
	AME	*-5*	*+90*	*+230*	*+210*	*+165*	*+155*	
Correcting child tax credit for families with disabled children	Total	+35	+50	+15	+15	+10	+10	Medium-Low
	AME	*+35*	*+50*	*+15*	*+15*	*+10*	*+10*	
Opposite-sex civil partnerships: state pension consequentials	Total	0	-5	-5	-5	-5	-10	Medium
	AME	*0*	*-5*	*-5*	*-5*	*-5*	*-10*	
Business rates: public lavatories	Total	0	+5	+10	+10	+10	+10	Low
	Receipts	*0*	*+5*	*+5*	*+5*	*+5*	*+5*	
	AME	*0*	*0*	*neg*	*neg*	*neg*	*neg*	
	RDEL	*0*	*0*	*+5*	*+5*	*+5*	*+5*	
Pension scheme for former NRAM and Bradford & Bingley employees	Total	0	0	0	0	-35	-35	Medium-Low
	AME	*0*	*0*	*0*	*0*	*-35*	*-35*	
NHS pensions: 'scheme pays' refund	Total	0	0	-15	0	0	0	
	Receipts	*0*	*0*	*+20*	*0*	*0*	*0*	
	AME	*0*	*0*	*-35*	*0*	*0*	*0*	
Tax measures								
High-income child benefit charge: freezing threshold	Total	0	+10	+40	+75	+120	+165	Medium-Low
	Receipts	*0*	*+10*	*+30*	*+55*	*+80*	*+105*	
	AME	*0*	*+5*	*+10*	*+25*	*+40*	*+60*	
	RDEL	*0*	*neg*	*neg*	*neg*	*neg*	*neg*	
Capital allowances: structures and buildings allowance clawback	Total	+5	+5	+10	+15	+20	+20	Medium
	Receipts	*+5*	*+5*	*+10*	*+15*	*+20*	*+20*	
Share loss relief	Total	neg	-5	-5	-5	-5	-5	Medium
	Receipts	*neg*	*-5*	*-5*	*-5*	*-5*	*-5*	
Tobacco duty escalator: impact of Autumn Budget cancellation	Total	+90	-190	0	0	0	0	Low
	Receipts	*+90*	*-190*	*0*	*0*	*0*	*0*	
VED on motorhomes	Total	0	+15	+20	+25	+30	+35	Medium
	Receipts	*0*	*+15*	*+20*	*+25*	*+30*	*+35*	
VAT on fund management	Total	0	+30	+15	+15	+15	+15	High
	Receipts	*0*	*+30*	*+15*	*+15*	*+15*	*+15*	
VAT postponed accounting	Total	0	0	0	0	0	0	Medium
	Receipts	*0*	*0*	*0*	*0*	*0*	*0*	
	VAT cash	*0*	*-3615*	*-185*	*+925*	*+315*	*-25*	
	VAT acc ad	*0*	*+3615*	*+185*	*-925*	*-315*	*+25*	
The EU Directive on administrative cooperation (DAC 6)	Total	neg	+5	+10	+15	+15	+15	High
	Receipts	*neg*	*+5*	*+10*	*+15*	*+15*	*+15*	
Probate fees reversal	Total	-130	-145	-150	-155	-165	-175	Low
	Receipts	*-130*	*-145*	*-150*	*-155*	*-165*	*-175*	
Delay in the sale of 5G spectrum licenses	Total	-25	+40	+40	+40	+40	+40	Very High
	Receipts	*-25*	*+40*	*+40*	*+40*	*+40*	*+40*	

Fiscally neutral measures								
Council tax rates	Total	0	0	0	0	0	0	Medium-Low
	Receipts	*0*	*+530*	*+545*	*+565*	*+580*	*+600*	
	AME	*0*	*-530*	*-545*	*-565*	*-580*	*-600*	
High Speed Two Ltd (HS2) VAT treatment	Total	-570	0	0	0	0	0	Medium
	Receipts	*+75*	*+310*	*+320*	*+330*	*+340*	*+350*	
	AME	*-75*	*-310*	*-320*	*-330*	*-340*	*-350*	
	RDEL	*-570*	*0*	*0*	*0*	*0*	*0*	
S4C VAT treatment	Total	0	0	0	0	0	0	Medium-Low
	Receipts	*+15*	*+15*	*+15*	*+15*	*+15*	*+20*	
	AME	*0*	*0*	*-15*	*-15*	*-15*	*-20*	
	RDEL	*-15*	*-15*	*0*	*0*	*0*	*0*	
Devolving disability benefits to the Scottish Parliament	Total	neg	-15	-25	-30	-40	-45	Medium
	AME	*neg*	*-15*	*-25*	*-30*	*-40*	*-45*	
Land Registry and Companies' House: reclassification	Total	0	0	0	0	0	0	Medium-Low
	AME	*0*	*+365*	*+375*	*+390*	*+405*	*+420*	
	RDEL	*0*	*-300*	*-305*	*-315*	*-330*	*-340*	
	CDEL	*0*	*-65*	*-70*	*-70*	*-75*	*-80*	
Green gas levy	Total	0	0	0	0	0	0	Medium-High
	Receipts	*0*	*0*	*+5*	*+20*	*+55*	*+95*	
	AME	*0*	*0*	*-5*	*-20*	*-55*	*-95*	
Other spending measures								
Public Expenditure statistical analyses (PESA) updates	Total	-100	0	0	0	0	0	N/A
	CDEL	*-100*	*0*	*0*	*0*	*0*	*0*	
Supplementary estimates	Total	+70	-490	0	0	0	0	N/A
	RDEL	*-485*	*0*	*0*	*0*	*0*	*0*	
	CDEL	*+555*	*-490*	*0*	*0*	*0*	*0*	
Scottish Government AME: restatement	Total	0	0	0	0	0	0	N/A
	AME	*0*	*+750*	*+895*	*+635*	*+835*	*0*	
	RDEL	*0*	*-750*	*-895*	*-635*	*-835*	*0*	
Assumed underspend: current	Total	0	+830	+1500	+1755	+1955	+2125	N/A
	RDEL	*0*	*+745*	*+1360*	*+1595*	*+1780*	*+1930*	
	AME	*0*	*+85*	*+140*	*+160*	*+175*	*+195*	
Assumed underspend: capital	Total	0	+1520	+3605	+4125	+4350	+4500	N/A
	CDEL	*0*	*+1410*	*+3340*	*+3840*	*+4010*	*+4145*	
	AME	*0*	*+110*	*+265*	*+285*	*+345*	*+350*	
Other DELs	Total	0	neg	neg	neg	neg	-990	N/A
	RDEL	*0*	*neg*	*neg*	*neg*	*neg*	*-990*	
	CDEL	*0*	*0*	*neg*	*neg*	*neg*	*neg*	
Direct effect of Government decisions		**+10**	**+2255**	**+5325**	**+6345**	**+7380**	**+5620**	

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. Shaded cells are illustrative and don't feed into the totals. Components may not sum to total due to rounding.

Scottish and Welsh Government policy decisions

A.15 Our UK public finances forecasts are also affected by decisions taken by the devolved administrations. These can affect UK-wide taxes, such as income tax and NICs, or those that have been fully devolved, such as the Scottish land and buildings transactions tax (LBTT). Since March 2019 the Scottish Government has announced several measures that have been reflected in this forecast, while the Welsh Government has announced one (Table A.4).

Table A.4: Costings for devolved administration policy decisions

		£ million					
	Head	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Scottish Government policy decisions							
Income tax: higher rate threshold of £43,430 in 2020-21	Receipts	0	+55	+60	+65	+65	+70
LBTT: new rate for commercial leases	Receipts	neg	+10	+10	+10	+10	+10
Landfill tax: delay to the BMW ban	Receipts	0	+5	+15	+15	+15	+15
Non-domestic rates policies		0	0	0	0	0	0
of which:							
Non-domestic rates: devolution of empty property relief	Receipts	0	0	0	+100	+100	+100
Non-domestic rates: other policies	Receipts	0	+10	+20	+25	+25	+25
Non-domestic rates: LASFE impacts	AME	0	-10	-20	-125	-125	-125
Scottish child payment	AME	0	-20	-65	-95	-155	-160
Social security: other policies	AME	0	-10	-20	-20	-25	-30
Welsh Government policy decisions							
Welsh Government: minimum unit price of alcohol	Receipts	-25	-25	-25	-25	-20	-20
Direct effect of Scottish Government decisions		neg	+40	neg	-25	-90	-95
Direct effect of Welsh Government decisions		-25	-25	-25	-25	-20	-20
Direct effect of devolved administration decisions		**-25**	**+15**	**-20**	**-50**	**-110**	**-115**

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. These costings are included in our pre-measures forecast, with the post-measures forecast only accounting for policy decisions by the UK Government.

A.16 The costings incorporated in our forecast include:[4]

- **Income tax: freeze higher rate threshold in Scotland at £43,430 in 2020-21:** this holds the gap between the threshold in Scotland and the UK constant in 2020-21 (since the UK threshold is also frozen at £50,000 next year).

- **Land and buildings transactions tax: new tax rate for leases:** the Scottish Government has introduced a higher tax rate on commercial leases where the net present value of the rent is above £2 million. From 7 February a 2 per cent rate will apply to the portion of the value above this threshold, compared to 1 per cent applied below it.[5]

[4] For more information see our *Devolved taxes and spending forecasts*, published alongside this *EFO* and available on our website. The effects detailed here need to be considered alongside the fiscal consequences set out in the Treasury's fiscal framework agreements with the Scottish and Welsh Governments respectively, which set out the methodology by which block grant adjustments are made.

[5] The 1 per cent band begins at £150,000.

- **Delay to the ban on sending biodegradable municipal waste to landfill:** our March 2019 forecast included the impacts of the Scottish Government's decision to ban the landfill of biodegradable municipal waste from January 2021. This was expected to reduce receipts of Scottish landfill tax but increase those of the UK Government's landfill tax, as some waste affected by the ban was diverted to landfill sites in England. Introduction of the ban has now been delayed to 2025.

- **Non-domestic rates:** the Scottish Government has made several changes to business rates policy. The **'devolution of empty property relief'** which passes the cost of the relief to Scottish local authorities from April 2022 raises £100 million a year. The introduction of a new **'intermediate property rate'** that will apply to properties with a rateable value between £51,000 and £95,000 from April 2020 costs around £10 million a year. And a measure on '**properties not in active occupation'** requires ratepayers to demonstrate to the local authority that the property is in continuous active use in order to claim relief. This raises £5 million a year.[6] These measures have **implications for local authority spending**, which we have assumed will move one-for-one with the changes in local authority income they generate.

- **Scottish social security spending:** the Scottish Government announced several new welfare policies in its February Budget. The spending associated with these is captured within our Scottish Government AME forecast. The largest measure is the introduction of a **Scottish child payment** of £10 per week for low-income families with dependent children. It is expected to cost £160 million a year by 2024-25. The next largest is the **child disability payment** that will replace DLA for children in Scotland from mid-2020. The cost of this change rises to £25 million a year by 2024-25. Table A.4 also includes several smaller policies that cost around £5 million a year.[7]

- **Welsh Government: minimum unit price of alcohol:** the Welsh Government has announced that it intends to follow the Scottish Government in setting a 50p minimum unit price (MUP) of alcohol in Wales, effective from March 2020. The price per alcohol unit embodied in most drinks is already higher than 50p. Proportionately the largest effect is on some types of cider bought in supermarkets and other shops. By raising prices, the MUP can be expected to reduce the volume of alcoholic drinks consumed and so reduce tax receipts. This behavioural response is uncertain, in respect of both the degree to which consumers will reduce their purchases of duty-paid alcohol and the degree to which they switch to either the illicit or cross-border markets. The effect of the Scottish MUP on receipts has not been evaluated yet.

[6] There are a handful of other measures too. Mainstream independent schools will no longer be able to claim charitable relief from September 2020. Commercial activity on currently exempt parks and council land used for recreation will lose its exemption from non-domestic rates in April 2022. And the empty property relief reset period has been lengthened from six weeks to six months.
[7] The fixed rate of funeral support payment, which recipients can use to pay for funeral directors and venue hire, will rise from £700 to £1000 in 2020-21 and subsequently in line with CPI inflation over the rest of the forecast. Funding for the Scottish welfare fund, (which offers grants to low income and vulnerable households) and discretionary housing payments will also be increased.

Policy costings and uncertainty

A.17 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 and Table A.3. These range from 'low' to 'very high'. In order to determine the ratings, we assess 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.18 Using the approach set out in Table A.2, we have judged 11 scorecard measures and 3 non-scorecard measure to have 'high' or 'very high' uncertainty around the central costing. Together, these represent 13 per cent of the scorecard measures by number, or 18 per cent of the tax and AME measures we have certified. They represent 23 per cent of certified measures by absolute value.[8]

Plastic packaging tax

A.19 The Government has announced a new plastic packaging tax of £200 per tonne on imported or domestically produced plastic packaging with a recycled content of less than 30 per cent. The tax rate will rise each year with CPI inflation and will take effect from April 2022. It raises £240 million a year on average from 2022-23 onwards.

A.20 We have certified the methodology used to produce the costing as reasonable and central, but have assigned it a 'high' uncertainty rating. While the data available are of reasonably good quality, they do not precisely match the packaging that will be liable to the tax (the 'tax base'). There are several years between the most recent year of data and the measure taking effect. The costing also allows for several behavioural responses, the estimates for which rely largely on judgement. The multiple steps required to transform the available data into the tax base and then to capture all the different behavioural responses mean the modelling is also uncertain. We therefore assign a 'high' uncertainty rating to each of data, behaviour and modelling, with behaviour deemed the most important for the costing.

A.21 The modelling steps taken to derive the tax base are:

- **Establishing the total amount of plastic packaging currently used in the UK.** This is based on two sources of information. Packaging recovery regulations require producers with an annual turnover of £2 million or more and handling greater than 50 tonnes of packaging a year to complete packaging recovery notes (PRNs). The amount of packaging reported in PRNs is augmented by data in reports from the 'Waste and Resources Action Programme' (WRAP). On this basis around 2.3 million tonnes is estimated to have been used in 2019-20.

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

- **Projecting the total plastic packaging in use to 2022-23**. PRN and WRAP data suggest that plastic packaging use is declining relative to consumer spending. We estimate the amount in use – in the absence of this measure – would fall to 2.1 million tonnes in 2022-23 and somewhat further year by year.

- **Removing packaging where the recycled content is already above the 30 per cent threshold** from the tax base. This also uses information from WRAP. Different plastic types vary significantly in the extent to which recycled materials can be used in their production. For example, bottles made using polyethylene terephthalate (PET) can be produced using recycled plastics, but there is no technology that allows for recycled content in packaging films (made using low density polyethylene). Once again, the WRAP data do not precisely capture the amount of packaging above the recycling threshold, so several further assumptions are required. This adjustment reduces the tax base by around 15 per cent in 2022-23, rising to 25 per cent in 2024-25.

- **Excluding businesses producing less than a de minimis level of 10,000 tonnes** of plastic packaging a year. There are limited data on how many businesses this will affect and how much packaging will therefore be excluded. HMRC survey evidence suggests the de minimis will affect a large number of small producers, but that the volume of packing they account for is relatively small. This suggests the de minimis will remove around 3 per cent of packaging from the tax liability.

A.22 The 'static' costing – the estimated revenue raised if firms and consumers do not change their behaviour in response to the introduction of the tax – is simply the tax rate multiplied by the tax base. This averages £325 million a year from 2022-23 to 2024-25. The costing then allows for several behavioural responses:

- **An increase in the recycled content used in plastic packaging** is the largest expected behavioural response. Average recycled content is assumed to rise by almost 60 per cent between 2022-23 to 2024-25, which lowers the yield by 13 per cent a year. Producers with packaging that would otherwise be just under the 30 per cent recycled threshold are expected to increase recycled content to avoid the tax. This could be through changing domestic production or via cross-border trade. These judgements are highly uncertain – there is little international evidence regarding the introduction of such taxes on which to base them.

- **Producers switching to alternative plastics or substituting to other materials** is estimated to lower the yield by a further 3 per cent a year. Producers may switch to plastic types with sufficient recycled content to avoid incurring a tax liability. The scale of this response is also uncertain, but it is assumed to be limited by the difficulty of producing some types of packaging from recycled content. The extent to which alternative materials such as cardboard or glass will substitute for plastics is similarly uncertain.

- **A price-related reduction in consumer demand**, as producers pass their tax liability through to higher prices. This lowers the yield fractionally.

- **Forestalling or stockpiling of plastic packaging ahead of the tax** reduces the costing by around £15 million in 2022-23. The amount of forestalling is assumed to be limited due to the relatively bulky nature of packaging.
- **Non-compliance** reduces the costing by an average of £25 million a year. This is equivalent to a tax gap of 10 per cent, similar to those for alcohol and cigarette duties, and slightly lower than that for landfill tax. HMRC's default position will be that packaging is liable for the tax unless proven otherwise, with the burden of proof for demonstrating the level of recycled content falling on the producer. As with all new taxes there are challenges around the timely and effective implementation of the necessary infrastructure, and the recruitment and training of compliance staff.

A.23 The combined effect of these behaviours is to reduce the static yield by around a quarter, with the new tax estimated to raise £250 million in 2022-23, falling to £230 million in 2024-25. The measure, by reducing the volume of plastic waste, is also expected to reduce landfill tax receipts by around £10 million a year.

Migration-related policy announcements

A.24 The new migration regime that the Government plans to introduce from January 2021 has material effects on our economy and fiscal forecasts. In addition, three measures are targeted at migrants: the increase in the immigration health surcharge and its extension to EEA nationals, restricting EEA migrants' access to non-contributory benefits and ceasing the 'export' of child benefit. The yield/savings from these are relatively small because the number of migrants affected is assumed to be reduced materially by the migration regime itself. This is particularly true of restricting access to non-contributory benefits because of the overlap between those who would be affected and those whose access to the UK will be restricted. None of the costings have been assigned a high uncertainty rating, but there is huge uncertainty around prospects for migration.

Other highly uncertain measures

A.25 The other measures subject to a 'high' or 'very high' uncertainty rating are:

- **'Capital Gains Tax: reduce the lifetime limit in entrepreneurs' relief to £1,000,000'**: under this relief company owners pay a lower rate of tax of 10 per cent on disposals of shares up to a lifetime limit for each taxpayer. The measure reduces that limit from £10 million to £1 million. CGT receipts are volatile from year to year, with the element related to unlisted shares, which makes up the majority of entrepreneurs' relief claims, particularly so. But the main uncertainty relates to behaviour. The measure doubles the CGT payable on gains between £1 million and £10 million (in most cases). We might expect this to prompt a substantial behavioural response. But there is also evidence that the relief does not play a significant role in entrepreneurial decision making, often coming as a pleasant windfall to business owners when they retire.[9] To the extent that

[9] As we discussed in Chapter 4 of our 2019 *Fiscal risks report*.

that is the case, the behavioural response might be more limited. Judging the balance between these is particularly uncertain. Overall, we have assigned this costing a 'very high' uncertainty rating.

- **'Pensions: increase annual allowance taper threshold and adjusted income limit, reduce minimum annual allowance'**: this measure partly reverses the effect of the annual allowance taper that was introduced in 2015. The key uncertainty relates to modelling, to which we have assigned a 'very high' rating. For reasons of analytical tractability, the cost is estimated by modelling yield from the taper using the existing and new policy parameters and calculating the difference between them. The original taper has prompted large behavioural responses – in the private sector, some have converted pension contributions to pay; in the public sector, some have left pension schemes or curtailed work. The extent to which these responses are reversed by those no longer affected by the taper is highly uncertain. Overall, we have given this costing a 'very high' uncertainty rating.

- **'Conditionality: hidden economy'**: This measure requires drivers of taxis and minicabs to provide evidence of tax registration to licensing authorities when applying to renew their licences. It applies from April 2022. There is data uncertainty around the tax liability of those that will be affected, and modelling uncertainty about growth in that tax base. More significant is the behavioural uncertainty around how taxi drivers might respond, for example in terms of employment choices or seeking to evade the new requirements. Overall, we have assessed this a 'very high' uncertainty rating.

- **'Notification of uncertain tax treatment'**: this measure requires large business taxpayers to notify HMRC of potential tax disputes, where the value of the uncertain tax liability exceeds £1 million. This is based on the definition of 'uncertain tax treatment' used in international accounting standards. This is expected to make HMRC's compliance activities more productive through more and earlier notifications, and fewer cases going to litigation. The costing draws on HMRC administrative data projected forward to proxy the actual tax base. Both data and modelling are deemed a 'very high' source of uncertainty. Most importantly, the behavioural response is also very uncertain. The costing assumes that the new notification requirement will make firms less likely to interpret their tax liabilities in ways that HMRC will disagree with and more likely to seek HMRC clearance for uncertain positions. The effect of this has been estimated with reference to the 'senior accounting officer' regime, but is highly uncertain. We assign this measure a 'very high' uncertainty rating.

- **'Windrush: tax exemption for compensation payments'**: The modest cost of the tax relief associated with the Windrush compensation scheme is highly uncertain because the amount of compensation to be paid is itself highly uncertain. Most of the cost identified by the Home Office Impact Assessment is from employment-related compensation. Two key inputs to modelling these costs are subject to high uncertainty. First, average earnings lost by the affected population are modelled by the Department for Work and Pensions using Labour Force Survey microdata (suggesting a figure of around £21,500 a year) and an average duration affected that is based

solely on judgement. On the latter, the costing simply takes the mid-point of the scenarios presented in the Impact Assessment (i.e. 2½ years). Second, the Home Office believes that it will only be possible for between 15 and 28 per cent of those eligible for employment-related compensation to provide the documentary evidence necessary to receive their actual entitlement, with others claiming a general earnings compensation of between £8,000 and £10,000 instead. The assumption that 21.5 per cent of claims receive the amount to which they are entitled (again, the mid-point of the range presented in the Impact Assessment), while 78.5 per cent receive the fixed tariff, reduces the amount of compensation paid out by around £100 million and the cost of the associated tax relief by around £25 million (relative to all employment-related claims receiving around £54,000 – i.e. £21,500 times 2½ years). This illustrates the scale of the uncertainty associated with these assumptions. We assign this costing a 'high' uncertainty rating.

- **'Red Diesel: remove relief for sectors other than rail, home heating and agriculture'**: this measure removes the red diesel relief from around three-quarters of the red diesel currently consumed. The main uncertainty surrounds the behavioural response to the large price rise for those affected. This is an area with a history of non-compliance, sometimes on a large scale, and there is uncertainty over the level and effectiveness of future compliance activity. The measure does not come into effect until April 2022, so there is also uncertainty around forestalling. And further uncertainty relates to the degree of substitution to alternative fuels. Overall, we assign a 'high' uncertainty rating, with behaviour rated 'very high'.

- **'Stamp Tax on Shares: connected company transfers'**: stamp taxes on shares apply on the transfer of existing securities in UK companies. This measure prevents arrangements involving transfers of unlisted securities to connected companies that are deemed 'contrived arrangements'. The tax base is based on HMRC experts' judgement in the absence of relevant data – a source of high uncertainty. The costing assumes that some affected businesses would either try to avoid the charge while others would no longer engage in these transfers. The scale of such behaviour is also a source of considerable uncertainty. Overall this receives a 'high' uncertainty rating.

- **'Corporation Tax: relief for pre-2002 intangible fixed assets'**: this measure extends the corporation tax regime for intangible fixed assets to provide relief on all relevant acquisitions from 1 April 2020. Modelling is a 'very high' source of uncertainty, since the regime itself is complex. There is also considerable uncertainty over behaviour. The relief may increase inward investment of intangibles but perhaps also avoidance if companies seek ways to push boundaries and claim the relief. We expect the cost to increase over time due to 'attrition' – the catch-all assumption designed to capture this type of behaviour. Overall, we give this costing a 'high' uncertainty rating.

- **'Stamp Duty Land Tax: 2% non-UK resident surcharge'**: this measure introduces an additional 2 per cent SDLT surcharge for all purchases of residential property by non-UK residents from April 2021. The main source of uncertainty is behaviour, which we assign a 'high' rating. The policy is being announced a year before implementation,

creating an incentive to bring forward transactions. The costing assumes that around 6,500 non-resident purchases a year will be displaced by new UK-resident transactions, which is uncertain too. There is also considerable uncertainty around the tax base as there is no existing requirement for those purchasing property to declare whether they are a UK resident or not. This costing receives a 'high' uncertainty rating overall.

- **'Housing benefit: investment in fraud detection by Local Authorities'**: this measure seeks to reduce fraud and error in housing benefit claims by increasing the resources available to local authorities to carry out compliance activity. Housing benefit is part of the legacy benefits system that is being replaced by universal credit for working-age claimants. Despite that, the measure provides equal funding in each year. As a result, it will target a diminishing caseload over time, an increasing proportion of which will be pensioners. This is likely to generate diminishing returns on compliance interventions – because the remaining caseload is less likely to be in work or experience frequent changes in circumstances, so less likely to make errors in their claims. This generates data and modelling challenges. Overall, we give this a 'high' uncertainty rating.

A.26 We decided against giving a high uncertainty rating to **'investment in HMRC to improve tax compliance'** on the grounds that it largely relates to the collection of tax and tax credits debt rather than compliance activity. The element of the measure that does relate to tax compliance, affecting around a third of the yield, *is* highly uncertain, but costings relating to debt collection are less so.

Update on previous measures

A.27 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 the original (or revised) costings are under- or over-performing, and at costings that were identified as particularly uncertain.

Policy reversals

A.28 The Budget public spending announcements reverse all the cuts in real departmental spending per person that had been implemented since 2010-11. Our forecast also reflects one previously announced tax policy that has been reversed:

- **'Corporation tax: maintain at 19%'**: the corporation tax rate was scheduled to fall from 19 to 17 per cent on 1 April 2020. This cut was announced by George Osborne in Budget 2016, when he argued that corporation tax is "*one of the most distortive and unproductive taxes there is*". Not going ahead with the cut increases revenue by increasing amounts over the forecast period, reaching £7.5 billion in 2024-25.

Policy delays

A.29 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:

- **'Tax credit debt: enhanced collection':** this measure, announced in Autumn Budget 2017, and due to begin in April 2018, was designed to facilitate the smooth transfer of certain tax credits debt from HMRC to DWP. In March 2018, HMRC told us that '"*IT problems*" meant a delay to October 2018, before that timetable slipped again to March 2019. A third delay, this time due to "*testing the IT solution*", pushed this back to June 2019. DWP has now informed us that "*constraints in DWP's debt management resources*" has resulted in further delay, with 62,000 cases moved from 2019-20 to 2020-21. The original costing expected to yield £240 million across 2018-19 and 2019-20. It is now expected to yield £25 million across those two years, but is still expected to generate savings in subsequent years.

- **Delays to universal credit managed migration and the full rollout of personal independence payment:** these two delays are described earlier in this annex. They are now expected to conclude nine and seven years behind schedule respectively.

- **'Construction supply chain VAT fraud: introduce reverse charge'**: this Autumn Budget 2017 measure sought to counter construction sector fraud by introducing a reverse VAT charge. It was scheduled to take effect from October 2019, but the Government has agreed to industry requests for a one-year postponement to October 2020.

- **'Protecting your taxes in insolvency':** in Budget 2018 the Government announced a measure that would move HMRC up the order of creditors so that it ranks as a secondary preferential creditor for several tax debts. It was due to commence on 1 April 2020, but has been delayed until 1 December 2020.

Evaluation of HMRC operational measures

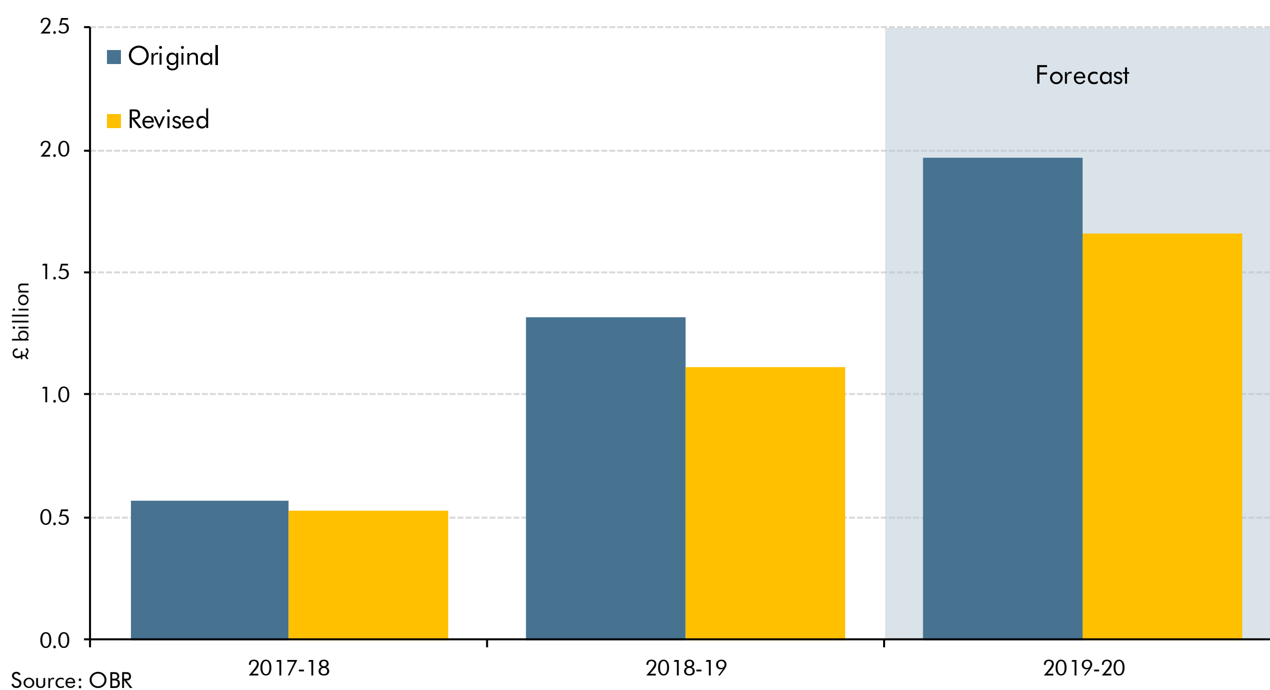
A.30 The revenue estimates from measures designed to generate yield through additional HMRC compliance resourcing and activity tend to be highly uncertain. Previous analysis has shown that the numbers of under- and over-performing measures are broadly similar, but there has been a revealed optimism bias in some larger measures.[10] At Summer Budget 2015 the Government announced a large package of measures across a range of compliance areas, supported by £1.3 billion of additional DEL funding from 2015-16 to 2020-21.

[10] Johal, OBR Working Paper No.11: *Evaluation of HMRC anti-avoidance and operational measures*, 2017.

A.31 The package included ten separate costed interventions for which HMRC has outturn data for 2017-18 and partial outturn data for 2018-19. Many of the challenges inherent in scrutinising the initial costings also apply to evaluating their performance. It is difficult to isolate the additional impact of individual measures from HMRC's wider compliance activity. Similarly, it is not straightforward to attribute even observed behaviour to a specific intervention. The outturn data relies on statistical techniques to attribute compliance yield to each measure. It is then converted to the National Accounts measure of tax receipts that we use in our forecasts. Compliance yield can also be skewed by large one-off cases.

A.32 Notwithstanding these caveats HMRC's analysis shows that performance has largely matched expectations (see Chart A.1). Total estimated outturn in 2017-18 and 2018-19 is relatively close to initial expectations, while the current forecast for 2019-20 is below the initial costings. The current estimate of the three-year total is £3.3 billion compared to the £3.8 billion from the original costings, a shortfall of 14 per cent. In an area where yields can vary hugely and we assign high uncertainty ratings, this is a narrow margin of error.

Chart A.1: Summer Budget 2015 compliance yield: original versus revised costings



Source: OBR

Updates on other measures

A.33 Our forecast reflects updates on several other measures:

- **Off-payroll working (also known as 'IR35'):** this relates to two measures that target off-payroll workers (in the public and private sectors respectively) who work through an intermediary, such as a personal services company (PSC), which enables them to pay less tax and NICs. The measures move the burden of responsibility for determining whether existing rules apply to the engager rather than the intermediary. The public sector element came into force in April 2017, while the private sector element begins in April 2020. Administrative data on the public sector measure has led us to revise up

the yield. The original costing underestimated the growth in the number of PSCs, so a larger-than-expected tax base has been affected. HMRC analysis also suggests a lower offsetting impact from dividend taxation than initially assumed. Tax records point to a higher-than-expected proclivity to retain profits within companies. One of the reasons for this appears to be owners channelling their entrepreneurial spirit by ceasing trading in order to benefit from entrepreneurs' relief on capital gains. These changes raise the expected yield of the measures by £250 million by 2024-25.

We asked the Treasury about the Chancellor's recent statement that he had "*spent time with HMRC to ensure they are not going to be at all heavy handed for the first year*" of the private sector measure and whether this posed a risk to our forecast. The Treasury confirmed that this reflected existing plans to spend the first year focusing on "*education and support*", so did not constitute a change in how it will be implemented.

- **Pensions flexibility:** this Budget 2014 measure gave individuals with defined contribution pensions the flexibility to withdraw their funds from age 55, subject to tax paid at their marginal rate rather than the 55 per cent charge previously in place. The measure raised £2.0 billion (67 per cent) more than the original estimate over the 2015-16 to 2018-19 period of the initial costing thanks to more funds being withdrawn than originally assumed. This pattern has continued in 2019-20. The earliest cohorts have continued to withdraw funds at a consistent rate, whereas we had previously expected their withdrawals to have diminished by this stage. We have increased our income tax forecast by £0.4 billion a year in light of these changes.

- **HMRC offshore initiatives:** HMRC has introduced a range of policy measures designed to tackle offshore tax avoidance and evasion, including providing opportunities for voluntary disclosure, information exchange agreements and penalty regimes. As we have reported on several previous occasions, the yield from these measures is highly uncertain given the paucity of reliable data and the tendency for individuals engaged in these activities to seek alternative opportunities. The single largest movement in the forecast is due to a downward revision of around 80 per cent to the assumed average value of relevant compliance cases worked by HMRC staff, based on evidence from existing cases. The impact is only slightly offset by a delay in expected voluntary disclosures that pushes revenue previously expected in 2018-19 to the early years of the forecast. Overall, we have revised down our receipts forecast by an average of £0.1 billion a year. We will continue to revisit these measures.

- **Restrict landlords' finance relief to the basic rate of income tax:** at Summer Budget 2015 the Government announced that the finance costs of landlords of residential property would only be relieved at the basic rate of income tax (rather than at their marginal rate). The measure has been phased in since 2017-18 with the full restriction beginning from 2020-21. A key assumption in the original costing was the proportion of landlords' finance costs relating to residential property. The original costing assumed 92 per cent, but evidence from 2017-18 self-assessment returns suggests the proportion is 72 per cent, with a far higher commercial property proportion than

initially expected. This is the primary reason we have lowered the yield from the measure by a third, taking £0.3 billion a year off our income tax forecast.

- **CGT payment window for residential property:** this measure, announced at Autumn Statement 2015, requires taxpayers to pay CGT on residential property within 30 days of a transaction taking place, instead of through self-assessment (SA). After a one-year delay from the original timetable, HMRC has confirmed that the payment window will launch in April 2020. The costing has been updated to account for the impact of **penalties for failing to meet the new 30-day filing** requirement. Additional penalties are also due if the taxpayer subsequently fails to file within six months and then again at 12 months. Despite it being more than four years since the policy was announced, HMRC believes that a lack of public awareness will lead to repeated penalties for some individuals. The net impact, once allowance is made for those individuals that would have incurred penalties under the existing SA filing regime, is to raise the initial costing by around £10 million a year.

- **Tax credits: limiting the child element to two children:** this measure, announced at Summer Budget 2015, limits the child element of child tax credits to a maximum of two children born from April 2017 onwards. The original costing allowed for the incentive for couples affected by the limit either to separate or just to tell HMRC that they had separated so that they could make two claims. The original costing assumed that 10 per cent of affected couples would respond in this way, but HMRC analysis of administrative data found no evidence of this. Removing this assumption reduces our spending forecast by amounts rising to £165 million by 2024-25.

- **Personal independence payments (PIP): response to legal judgements:** in our March 2018 *EFO* we noted that the Government was not going to appeal against a High Court decision in December 2017 that ruled against Government plans to mitigate the effects of an earlier legal defeat in November 2016. The first case, known as 'MH', related to claimants with certain mental health conditions. In March 2018 we revised our forecast up by an average of £0.4 billion a year, based on DWP's assessment of what complying with the ruling entailed. These estimates were provisional at the time and based on DWP's expectation that 5 per cent of claimants would receive a higher award in arrears. This figure has now been revised down to just 0.7 per cent, with the resulting cost reduced to just £17 million a year, 96 per cent less than expected. It is not clear why the initial assessment – provisional though it was – proved so inaccurate.

- **Transferable marriage allowance:** this Autumn Statement 2013 measure allows spouses and civil partners to transfer some of their personal tax allowance to their partner, provided neither are higher or additional rate taxpayers. The original take-up assumption was a source of high uncertainty and since the allowance was launched in 2015-16 we have made a series of revisions to the forecast. Outturn data for 2015-16 suggested take-up of only 16 per cent compared to the 70 per cent originally assumed, prompting a significant downward revision in our March 2016 *EFO*. Then in our October 2018 *EFO* we made a significant revision in the opposite direction as the outturn data now suggested take-up in 2018-19 would be over 80 per cent. In spring

2019 HMRC announced that investigations had revealed that its published statistics were erroneously including unsuccessful claims and double-counting those making back-dated claims. There were actually 1.8 million claimants in 2018-19, and not the 3.5 million published estimate. Take-up is now assumed to be around 40 per cent. This raises our income tax forecast by an average of £0.4 billion a year.

Policy risks

A.34 Parliament requires that our forecasts only reflect current Government policy. As such, when the Government sets out 'ambitions' or 'intentions' we ask the Treasury to confirm whether they represent firm policy. We use that information to determine what should be reflected in our forecast. Where they are not yet firm policy, we note them as a source of risk to our central forecast. The full list of risks to this forecast and changes from previous updates is available on our website. Below we update on risks that are particularly large, have changed materially over the past year, or are new:

- **Policy responses related to the coronavirus.** In the Budget, the Chancellor announced a series of measures to mitigate the effects of the more severe potential scenarios. Unavoidably, these were finalised after we closed our economic and fiscal forecasts. It is impossible at this point to give a reliable estimate of their fiscal consequences, as take-up and implementation will depend on how the outbreak unfolds.

- **The 'Augar' review of post-18 education funding** was launched in February 2018 and reported in May 2019. It made recommendations relating to skills, higher education, further education and student contributions. Those with significant fiscal implications include reducing the student fee cap to £7,500 a year and freezing it until 2022-23, and changes to repayment terms. The Government has not responded to the report. The Conservative manifesto stated that "*The Augar Review made thoughtful recommendations … and we will consider them carefully. We will look at the interest rates on loan repayments with a view to reducing the burden of debt on students.*"

- **Prospective reforms to adult social care.** Having postponed implementation of reforms underpinned by the 2011 'Dilnot Commission', the Government announced in December 2017 that it would publish a green paper on the future of adult social care in the summer of 2018. This did not materialise. The 2019 Conservative manifesto commits to "*urgently seek a cross-party consensus in order to bring forward the necessary proposal and legislation for long-term reform*". The Prime Minister told the BBC in January 2020 that he would be "*bringing forward a proposal*" later this year, and in relation to implementation that "*we will certainly do it in this parliament*".[11]

- The consultation on **NHS pension scheme: increased flexibility** closed in November 2019. It considered concerns that pension tax charges were making senior NHS clinicians retire early or reduce their hours. It proposed a 'flexible accrual' option where members can choose an accrual level in 10 per cent increments; and the option

[11] Prime Minister interviewed by Dan Walker, BBC Breakfast, 14 January 2020.

to 'fine tune' pension growth towards the end of the scheme year, when total earnings are clearer. The Government has not formally responded following the consultation. In November 2019, NHS England announced that for 2019-20, if clinicians were liable for the tax charge as a result of work undertaken in the 2019-20 tax year, the charge would in effect be paid by the NHS. The uncertain cost of this element is reflected in our forecast.

- A **ban on the sale of new petrol and diesel vehicles from 2035** was announced by the Prime Minister on 4 February. This accelerates the Government's previous target date of 2040. It also now extends to hybrid vehicles. The Government has not announced further details on how it will meet this target, so it has not been reflected in our central forecast. This poses a risk to VED and fuel duty receipts.

- A **consultation into decriminalising TV licence fee evasion** was published on 5 February 2020. It seeks views on whether an alternative enforcement scheme would be fairer and more proportionate, and on the potential effects on fee collection. The BBC has suggested it could reduce licence fee income by £200 million a year. This might be expected to feed through to lower BBC spending.

- The **2018 McCloud ruling** concluded that transitional protections offered as part of the 2015 public sector pension reforms were discriminatory. The Government told Parliament in July 2019 that difference in treatment will be remedied, but has not outlined the final policy. The Treasury's initial estimate suggested the liability to public service pension schemes will be around £4 billion a year. There has been no update to this estimate since July 2019. The Treasury told us that formal consultation on policy options is planned for later in the spring.

- The Government released a consultation into '**Freeports**' in February 2020. These are secure customs zones enabling business to be carried out inside a country's land border, but where different tax and customs rules apply. The model proposed in the consultation incorporates duty suspension, duty inversion, duty exemption for re-export, and simplified customs procedures. The effect on receipts will depend on the details of the tax concessions offered, any additional economic activity generated net of displacement of activity from elsewhere, and the effectiveness of associated enforcement regimes.

- The Government has announced that its new **First Homes** scheme will cut costs of a proportion of new homes by a third for first-time buyers. The Government has launched a consultation into the design and delivery of the scheme, which states that "*The primary objective of First Homes is to support people who wish to purchase a home in their local area but are unable to afford a property on the open market*". The Housing Secretary has also suggested that the discount would be prioritised for veterans and key workers including nurses, police officers and firefighters. The consultation does not close until after the Budget.

- A High Court ruling in February 2020 found that the Government's **bereavement support payment** "*unjustifiably discriminates*" against unmarried partners and their children. Bereavement support payment was introduced in 2017 replacing previous bereavement benefits. This ruling follows the August 2018 Supreme Court ruling that the exclusion of unmarried couples from widow's pension was incompatible with the principles of the European Convention on Human Rights. The Treasury has informed us that DWP is appealing against the latest ruling.

- The Government announced on 29 January that from 1 March 2020 it would take over running services on the **Northern Rail** network. It says Northern Rail is expected to be classified as a public corporation. We understand that the change will be reflected in the Department for Transport's RDEL settlement, and that the assets and liabilities of Northern Rail's pension scheme will be transferred to Government.

- In January the Government announced that the Treasury would be conducting a **review of air passenger duty** ahead of the Budget to strengthen regional connectivity. No decisions on potential reforms have yet been made.

- The Treasury has advised us that the Government will consult on implementation of the new restrictions on use of **red diesel** and that "*if clear evidence is presented that continued use of red diesel may be justified in sectors other than agriculture, rail and non-commercial heating, the Chancellor will consider the case for any policy response in the autumn.*" Should further sectors be exempted from the restriction, this would reduce the yield associated with this measure.

A.35 Several post-Brexit policy uncertainties relate to individual lines of our fiscal forecasts:

- The **post-2021 customs regime.** On 6 February, the Government launched a consultation on the tariff schedule that will apply from January 2021. The risks posed by many of the proposals are unquantifiable. In the meantime, our forecast is based on the EU 'Most-Favoured Nation' tariffs on non-EU imports not covered by alternative trading arrangements, and zero tariffs on EU imports.

- The **UK's participation in the EU emissions trading system** (ETS) beyond 2020. The Government has stated that its preference is to be part of a linked ETS, but this remains contingent on agreement from the EU.

- The Government has promised to pursue an approach to **vehicle emissions regulation** "*at least as ambitious*"[12] as the current EU arrangements. Absent firm detail on the policy that will be pursued from January 2021, our forecast is based on the UK imposing the equivalent of the EU emissions fines system.

[12] Office for Low Emission Vehicles, *The Road to Zero*, September 2018.

A.36 Not all the commitments made in the 2019 Conservative Party manifesto have been announced and costed in this Budget, so these remain policy risks:

- The manifesto committed to **increasing the NICs floor** to £9,500 by April 2020 and ultimately to £12,500. The increase to £9,500 from April 2020 has been announced, but the Government is yet to provide details of when it intends to have increased the threshold to £12,500. The threshold is linked to CPI inflation in the absence of other announcements, so would reach £12,500 by default indexation in the mid-2030s if inflation were to average 2 per cent.
- The manifesto also committed to extend **unpaid leave for carers** to one week. The Treasury informed us that this policy would be consulted on following the Budget. The manifesto costings document estimated that this would cost £25 million a year in additional welfare spending.

Costs of non-implementation of the Government's indexation policies

A.37 The Government decides how various rates and thresholds will rise over time in the absence of specific decisions to the contrary. These 'default indexation' policies are set out in the Treasury's '*Policy costings document*' alongside each Budget. Consistent with the requirements placed on us by Parliament, we forecast on the basis of those policies.

A.38 In some cases, despite governments restating these policies each year, they are rarely implemented. The biggest revenue effects from these decisions have been related to fuel duty and alcohol duties, but a similar pattern has been seen with smaller taxes such as the aggregates levy and VED for heavy-goods vehicles. Table A.7 sets out the £830 million cost in 2020-21 of the latest one-year freezes announced in this Budget. The default indexation policy for each remains unchanged.

Table A.5: Costs of not following stated Government indexation policy

Measure	Stated Government policy	Actual policy	£ million Cost in 2020-21
Fuel duty	Increase rates by RPI	Rates frozen since 2010	525
Alcohol duty	Increase rates by RPI	Rates frozen for 2020-21	285
Aggregates levy	Increase rates by RPI	Rates frozen since 2009	10
HGV VED	Increase rates by RPI	Rates frozen since 2001	5
HGV levy	Increase rates by RPI	Rates frozen for 2019-20	5
Total cost			**830**