A Budget 2017 policy decisions

Overview

A.1 Our *Economic and fiscal outlook (EFO)* forecasts incorporate the expected impact of the policy decisions announced in each Budget and Autumn Statement. In the run-up to each statement, the Government provides us with draft estimates of the cost or gain from each policy measure it is considering. We discuss these with the relevant experts and then suggest amendments if necessary. This is an iterative process where individual measures can go through several stages of scrutiny. After this process is complete, the Government chooses which measures to implement and which costings to include in its scorecard. We choose whether to certify the costings as 'reasonable and central', and whether to include them – or alternative costings of our own – in our forecast.

A.2 In this forecast, we have certified as reasonable and central all the costings of tax and annually managed expenditure (AME) measures that appear in the Government's main policy decisions scorecard.

A.3 The costings process worked reasonably efficiently, aided by the smaller-than-usual number of measures in this Budget and that fewer of them were submitted just before the deadline.

A.4 Table A.2 reproduces the Treasury's scorecard, with further details in Chapter 4 and in the Treasury's Budget 2017 *Policy costings document*, which summarises very briefly the methodology used to produce each costing and the main areas of uncertainty within each.

Policy decisions not on the Treasury scorecard

A.5 Our forecast includes the effect of a number of policy decisions that the Treasury has chosen not to present on its scorecard. These are presented in Table A.1. They include:

- '**council tax precept**' – in November 2015, the Government announced that it would allow local authorities that deliver adult social care to raise council tax by an additional 2 per cent a year for three years from 2017-18 to 2019-20. In December 2016, it announced that local authorities would have further flexibility to decide how the maximum 6 percentage point increase over the three years is delivered. Relative to the initial precept policy, the additional flexibility increases council tax receipts by £0.1 billion in 2017-18 and by £0.2 billion in 2018-19;

- '**personal injury discount rate**' – in February, the Ministry of Justice announced a reduction in the personal injury discount rate from 2.5 to *minus* 0.75 per cent (in inflation-adjusted real terms). This discount rate is used when calculating lump-sum awards in respect of financial loss due to personal injury. A lower discount rate increases the net present value of projected future flows, leading to higher awards. Box 4.2 sets out the different effects that this decision has on our forecast, which includes the Government adding around £1.2 billion a year to the RDEL reserve and a boost to insurance premium tax (IPT) receipts of around £100 million a year as the insurance sector passes higher costs through to higher premiums;

- '**probate fees**' – the Government has confirmed its plans to change the fees payable for an application for a grant of probate. The new rates come into effect in May and range between £300 and £20,000, depending on the value of the estate. The structure of the fees is such that the Treasury expects the ONS to classify them as a tax in the National Accounts. The Government expects the new fee structure to raise around £300 million a year. It will add to receipts and spending in equal measure, because the new tax is offset by the removal of negative spending from RDEL. We have also lowered our inheritance tax forecast by around £30 million a year to reflect the incentive for individuals with estates valued close to the bottom of the thresholds in the new probate fee structure to reduce the value of their estates (through genuine or contrived means) to remain within a lower fee band. This effect is expected to be relatively small, since the inheritance tax liability itself already provides a significant incentive to do this;

- '**personal independent payments (PIP): response to legal judgements**' – at the end of November 2016 there were two legal judgements relating to PIP that would have pushed spending in 2021-22 up a further £0.9 billion (and up £3.7 billion across the whole forecast period) absent any Government policy response. (This is the 'static' cost, assuming no behavioural response from potential claimants.) It would have added around 3 per cent to average awards and 4 per cent to the overall PIP caseload in 2021-22. The Government has announced legislative changes that are expected to reduce the impact to £110 million in 2017-18, with no ongoing cost;

- '**soft drinks industry levy**' – in its original announcement at Budget 2016 the Government chose to exclude small producers and importers, as measured by volume, from the soft drinks industry levy. It has now decided that imports of major brands will not attract this relief, regardless of the volumes imported. Only imports of goods made by small producers based abroad will be eligible. This is expected to increase yield by £45 million a year by 2021-22;

- '**making tax digital**' – the consultation on HMRC's 'making tax digital' programme closed in November 2016 and as part of the Government's response it has decided that businesses currently using spreadsheets to record transactions will be able to continue to do so, but they must ensure that the spreadsheets meet the necessary requirements of 'making tax digital'. Part of the yield in the original November 2015 costing related to the assumed improvement in record-keeping and the correcting of errors that would, on the whole, benefit the Exchequer. Relative to that baseline, the use of spreadsheets is expected to increase such errors. This reduces the expected yield from 'making tax digital' by amounts that reach £45 million a year by the end of the forecast. The Government has also announced a delay to part of the programme, the effect of which was included on the scorecard;

- '**100 per cent business rates retention pilots**' – the Government has announced details of pilots ahead of allowing local authorities to retain all the business rates they collect, instead of the current 50 per cent. The full policy is intended to be fiscally neutral, by transferring some spending responsibilities to local authorities. The pilots are fiscally neutral by definition because they allow the pilot authorities to retain an amount of business rates equal to the reduction in central government grant funding. Table A.1 shows how this affects our business rates and expenditure forecasts. The Government is launching a further consultation on the full policy, so it is not included in our central forecast (see paragraph 4.19);

- '**disguised remuneration**' – at Budget 2016 the Government announced a measure to tackle existing, and prevent future, tax avoidance through the use of disguised remuneration schemes. Following a consultation that closed in autumn 2016, the Government decided to delay the introduction of a new close companies' gateway by one year, after concerns raised by respondents about the breadth of the proposal. This measure moves yield to later in the forecast. Relative to the previous costing it reduces it by £40 million in 2018-19 but then raises it by £30 million in 2019-20;

- '**affordable homes programme**' – the Government has revised the profile of grants to housing associations via the affordable homes programme. This moves £200 million of grants from 2020-21 to 2019-20, which, after taking into account housing associations leveraging this funding, raises PSNB in 2019-20 by £0.5 billion and lowers it in 2020-21 by a similar amount; and

- '**other non-scorecard DEL changes**' – as we describe in paragraphs 4.17 and 4.18, there has been significant 'reprofiling' of spending between 2020-21 into 2019-20.

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

		£ million				
	Head	2017-18	2018-19	2019-20	2020-21	2021-22
Council tax precept	Current AME	-105	-220	+25	+25	+25
	Receipts	+105	+220	-25	-25	-25
Personal injury discount rate[1]	RDEL	-1160	-1050	-1170	-1170	-1170
Probate fees[2]	RDEL	-235	-290	-310	-330	-350
	Receipts	+235	+290	+310	+330	+350
PIP: response to legal judgements	Current AME	-110	0	0	0	0
Soft drinks industry levy	Receipts	0	+15	+30	+45	+45
Making tax digital	Receipts	0	0	-20	-40	-45
100 per cent business rates rentention pilots	RDEL	+1410	+1185	0	0	0
	CDEL	+1045	+1065	0	0	0
	Current AME	-1410	-1185	0	0	0
	Capital AME	-1045	-1065	0	0	0
Disguised remuneration	Receipts	0	-40	+30	0	0
Affordable homes programme	Capital AME	0	0	-450	+460	0
Other non-scorecard DEL changes[3]	RDEL	-25	-65	-310	-700	-495
	CDEL	0	-200	-750	+1230	+1695

Note: The presentation of these numbers is consistent with that in the scorecard shown in Table A.2, with negative signs implying an Exchequer loss and a positive an Exchequer gain.

[1] This measure is also expected to increase insurance premium tax receipts by around £100 million a year.

[2] This measure is also expected to increase inheritance tax receipts by around £30 million a year.

[3] These changes are described in paragraph 4.17.

Uncertainty

A.6 In order to be transparent about the potential risks to our forecasts, we assign each certified costing a subjective uncertainty rating, shown in Table A.2. These range from 'low' to 'very high'. In order to determine the ratings, we have assessed the uncertainty arising from each of three sources: the data underpinning the costing; the complexity of the modelling required; and the possible behavioural response to the policy change. We take into account the relative importance of each source of uncertainty for each costing. The full breakdown that underpins each rating is available on our website. It is important to emphasise that, where we see a costing as particularly uncertain, we see risks lying to both sides of what we nonetheless judge to be a reasonable and central estimate.

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

		Head	£ million					Uncertainty
			2017-18	2018-19	2019-20	2020-21	2021-22	
Raising Productivity and Living Standards								
1	16-19 Technical Education: implement Sainsbury reforms	Spend	0	-60	-115	-250	-445	N/A
2	Education capital: extend free schools programme	Spend	-20	-30	-50	-280	-655	N/A
3	Education capital: school investment	Spend	0	-130	-130	0	0	N/A
4	Labour market participation: funding for returnships	Spend	*	-5	0	-	-	N/A
5	Business Rates: discretionary support fund	Spend	-180	-85	-35	-5	0	Low
6	Business Rates: targeted support for Small Business Rate Relief recipients	Spend	-25	-20	-20	-25	-25	Medium
7	Business Rates: £1,000 discount for smaller pubs for 2017-18	Spend	-25	*	0	0	0	Medium
8	Regional and other spending	Spend	-15	-10	-5	0	0	N/A
An economy that works for everyone and public spending								
9	Social Care: additional funding	Spend	-1,200	-800	-400	-	-	N/A
10	NHS: Accident and Emergency streaming	Spend	-120	0	0	0	0	N/A
11	NHS: Sustainability and Transformation Plans	Spend	-130	-130	-130	0	0	N/A
12	Tackling domestic violence and abuse	Spend	0	-10	-10	0	0	N/A
13	Free school transport: expand eligibility to selective schools	Spend	0	-5	-5	-5	-5	N/A
14	International Women's Day: voting rights centenary commemoration	Spend	-5	0	0	-	-	N/A
Tax Sustainability and Fairness								
15	Class 4 NICs: increase to 10% from April 2018 and 11% from April 2019	Tax	0	+325	+645	+595	+495	Medium-high
16	Dividend Allowance: reduce to £2,000 from April 2018	Tax	0	+5	+870	+825	+930	Medium
17	Making Tax Digital: one year deferral for businesses with turnover below VAT threshold	Tax	*	-20	-65	-150	-45	Medium
18	Stamp Duty Land Tax: delay reduction in payment window to 2018-19	Tax	-105	+95	*	*	*	Medium-low
19	Aggregates Levy: freeze for April 2018	Tax	-15	-15	-15	-15	-15	Low
20	Heavy Goods Vehicles: freeze VED and Road User Levy	Tax	-10	-10	-10	-10	-10	Low
21	Packaging Recycling Targets: set rates for 2018-2020	Tax	*	*	-5	-5	-5	Medium
Avoidance, Evasion, and Imbalances								
22	Tax avoidance: new penalty for enablers of tax avoidance	Tax	+10	+50	+20	+20	+15	High
23	Qualifying Recognised Overseas Pension Schemes: targeted charge	Tax	+65	+60	+60	+65	+65	High
24	Tax treatment of transfers to trading stock: prevent abuse	Tax	+25	+15	+15	+15	+15	Medium
25	VAT on telecoms outside the EU: align with international practice and prevent avoidance	Tax	+45	+65	+65	+65	+65	High
Previously announced welfare policy decisions								
26	Tax Credit Debt: enhanced collection	Spend	0	+60	+180	+145	+135	Medium
27	Living Together Data Fraud: enhanced data collection	Spend	*	+5	*	*	*	Medium-low
28	Child Tax Credit and Universal Credit: targeted exceptions to two child limit	Spend	-5	-15	-35	-55	-70	Medium
	TOTAL POLICY DECISIONS		**-1,710**	**-665**	**+825**	**+930**	**+445**	

**negligible*

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

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

A.7 Table A.3 shows the detailed criteria and applies them to a sample policy measure from this Budget: '**tax credits debt: enhanced collection**'. This is expected to yield £0.5 billion in total from 2018-19 to 2021-22 by transferring tax credit debts for which HMRC has exhausted all possible collection procedures to the Department for Work and Pensions (DWP). Unlike HMRC, DWP has powers to recover debt directly from earnings without needing prior court approval. For this policy we have judged that the most important source of uncertainty will be data, followed by modelling, then behaviour.

A.8 The data are based on snapshots of eligible cases and the value of uncollected debt. While the data are generally of good quality, they are subject to occasional fluctuation that adds uncertainty around whether the snapshots are representative of the final cases that will be transferred. Overall we consider this to be a 'medium' source of uncertainty.

A.9 The modelling involved several steps to get to the final cases that would be transferred to DWP – for example excluding cases that did not meet the criteria, such as those with employment income below £5,200. We consider this to be a 'medium' source of uncertainty.

A.10 We consider the behaviour to be the least important source of uncertainty as these debts relate to individuals that have already exhausted all of HMRC's attempts to collect those debts, while collecting them via the individual's employer reduces the scope not to comply. Any additional behavioural response from this measure is therefore considered negligible and receives a 'medium-low' source of uncertainty.

A.11 Taking all these judgments into account, we gave the costing an overall rating of 'medium'.

Table A.3: Example of assigning uncertainty rating criteria: 'tax credit debt: enhanced collection'

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

A.12 Using the approach set out in Table A.3, we have judged three measures in the scorecard to have 'high' uncertainty around the central costing. Together, these represent 11 per cent of the scorecard measures by number and 6 per cent by absolute value (in other words ignoring whether they are expected to raise or cost money for the Exchequer). In net terms, they are expected to raise the Exchequer £0.7 billion in total over the forecast period. The measures are:

- '**qualifying recognised overseas pension schemes: targeted charge**' – this measure receives a 'high' uncertainty ranking. It builds on changes to foreign pensions taxation announced at Autumn Statement 2016 by bringing in charges for most pension schemes based in countries outside the European Economic Area or based in a different country to the one in which the individual lives. Behaviour is the most important source of uncertainty for this costing. We have ranked it 'high' because of the difficulty of predicting the behavioural response of people that are already changing their behaviour to avoid paying tax. Modelling was also considered to be a 'medium-high' uncertainty as there was difficulty in forecasting the level and value of transfers to qualifying recognised overseas pension schemes as these have fluctuated greatly in previous years. The modelling therefore required several assumptions to be made, to which the estimated yield is sensitive;

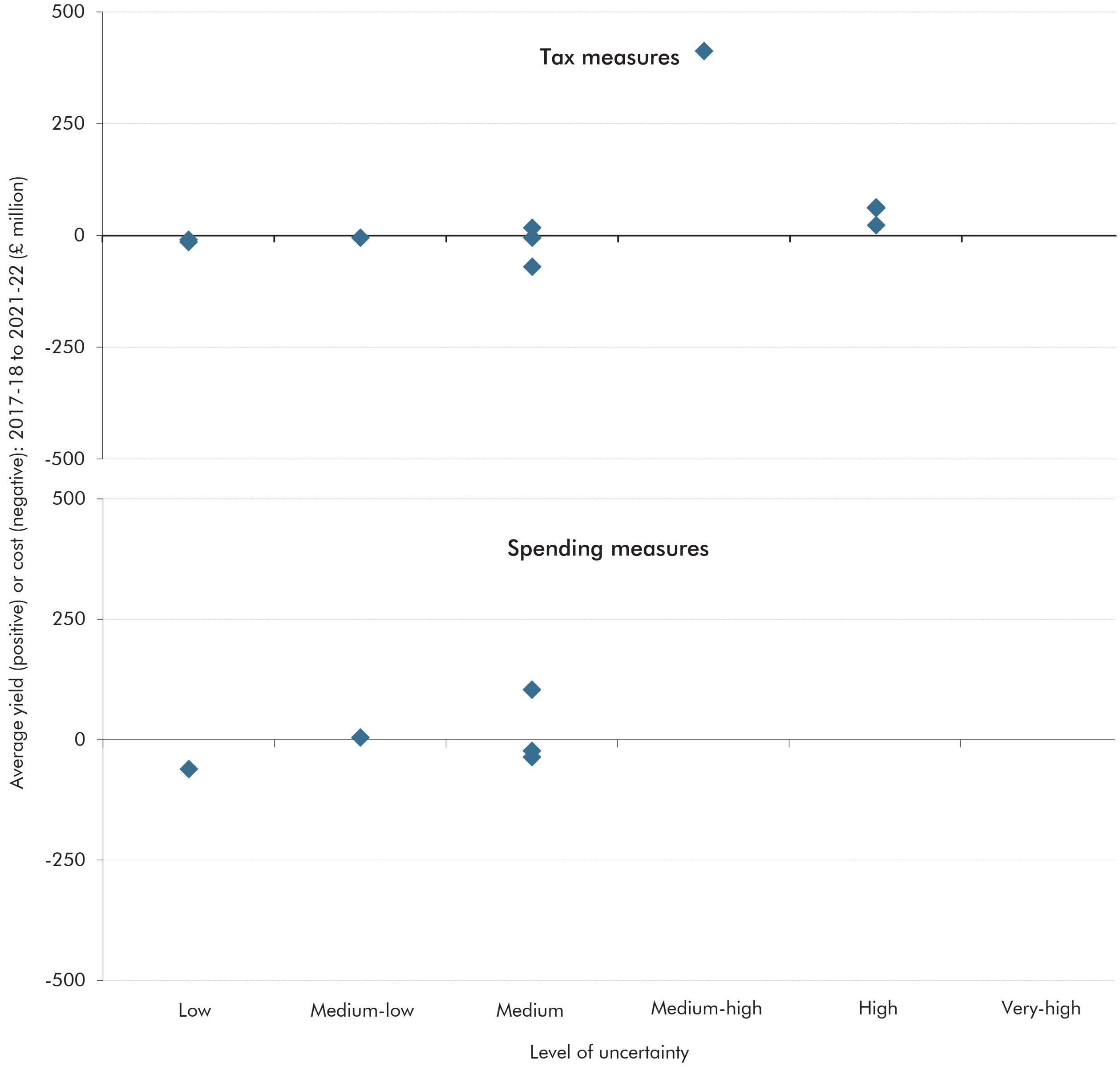
- '**tax avoidance: new penalty for enablers of tax avoidance**' – this measure receives a 'high' uncertainty ranking. It contains two parts. The first defines what 'reasonable care' constitutes in relation to penalties for inaccuracies in tax returns as a result of using tax avoidance arrangements. The second introduces a penalty for those who are deemed to have enabled taxpayers to implement abusive tax avoidance arrangements which HMRC defeats. The main uncertainty was considered to be behaviour, which we considered to be a 'very high' source of uncertainty. As with most avoidance measures, estimating the current amount of tax lost and predicting the behavioural response of individuals that are already changing their behaviour to avoid paying tax is hugely uncertain. Modelling was also considered to be a 'high' uncertainty as it depends on a projection of future avoidance; and

- '**VAT on telecoms outside the EU: align with international practice and prevent avoidance**' – this measure receives a 'high' uncertainty ranking. It aims to bring telecommunications used outside of the EU into the scope of VAT, with effect from 1 August 2017. The main uncertainty relates to the data, which we consider to be a 'high' source of uncertainty. The data consist of HMRC operational information from large telecommunications providers relating to revenue from 'pay monthly' roaming charges. This has been collected from various sources across different years. The data are incomplete, and needed to be scaled up to account for 'pay-as-you-go' revenue for the large providers and for all revenues from smaller providers. Modelling is also considered to be a 'medium-high' source of uncertainty as it was difficult to generate an up-to-date baseline and, given the scaling approach, the costing is sensitive to the assumption made about the proportion of the yield that will be made up from 'pay-as-you-go' revenues.

A.13 We have judged 11 scorecard measures to have between 'medium-low' and 'medium-high' uncertainty around the central costing, with a further three having 'low' uncertainty. That means that 39 per cent of the Budget scorecard measures have been placed in the medium range (49 per cent by absolute value) and 11 per cent have been rated as low (just 3 per cent by absolute value).

A.14 Chart A.1 plots these uncertainty ratings relative to the amount each policy measure is expected to raise or cost. One feature of the distribution of measures by uncertainty is that the spending measures are typically assigned lower uncertainty ratings, while the tax raising measures typically have higher uncertainty ratings than the tax cuts. This is particularly true for the measures that aim to raise money from companies and from high income and wealth individuals that are already actively planning their affairs to reduce their tax liabilities. This pattern has been apparent in most recent Budgets and Autumn Statements.

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



Small measures

A.15 The BRC has agreed a set of conditions that, if met, allow OBR staff to put an individual policy measure through a streamlined scrutiny process. These conditions are:

- the expected cost or yield does not exceed £40 million in any year;
- there is a good degree of certainty over the tax base;
- it is analytically straightforward;
- there is a limited, well-defined behavioural response; and
- it is not a contentious measure.

A.16 A good example of a small measure announced in this Budget is the '**heavy goods vehicles: freeze VED and road user levy**' measure. Vehicle excise duty rates are forecast to increase by RPI inflation, but the duty rate for heavy goods vehicles (HGVs) has remained frozen since 2001. This measure freezes vehicle excise duty rates for HGVs once again. It is expected to cost around £10 million a year. The costing uses good quality data based on a stock of relevant vehicles. The modelling is straightforward and has been applied repeatedly. It involves multiplying the stock of HGVs by the difference between the current rate and the counterfactual rate if it were increased by RPI inflation. Behaviour is considered to have a negligible impact as the change in rate will make up a very small proportion of the running costs for the full stock of HGVs. Given the regularity with which the freeze is extended each year, it is not considered a contentious measure. The decision to freeze the aggregates levy rate at £2 rather than uprating it by RPI inflation meets the same criteria. It has now been held at that rate since 2009-10.

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

Update on previous measures

A.18 We cannot review and re-cost all previous measures at each fiscal event (the volume of them being simply too great), but we do look at any where we are informed that the original (or revised) costings are under- or over-performing, and at costings that we have previously identified as subject to particular uncertainty.

Corporation tax: change in National Accounts treatment

A.19 A number of past measures have been affected by aligning our forecast to the new ONS approach to recording corporation tax (CT) receipts in the public sector finances data on a time-shifted accruals rather than a cash basis.[1] This approach time-adjusts cash receipts so that they are recorded closer to the time when the economic activity that created the liabilities took place. This change was implemented in the February public finances release and the methodology was described in Box 4.2 of our November *EFO*. The main points are:

- instalment payments by **non-oil companies with profits less than £20 million** are paid quarterly, starting seven months after the start of the accounting period. Time-shifting will mean that these are spread evenly over the three-month period four to six months previously. So a payment made in July 2017 relating to 2016-17 liabilities would be spread evenly over January 2017 to March 2017;

- instalment payments by **non-oil companies with profits greater than £20 million** initially follow the pattern described above for smaller instalment paying companies. But for accounting periods beginning on or after 1 April 2019, the first quarterly payment will be brought forward four months and will be due two months after the end of the accounting period. The time-shifting methodology will reflect that change,

[1] The ONS has applied the same National Accounts accruals methodology for the bank surcharge, the bank levy and offshore CT.

so that a payment made in June 2020 relating to 2019-20 liabilities would be spread evenly over April 2020 to June 2020; and

- payments from **smaller companies** are due nine months and a day after the end of the accounting period. Time-shifting will mean that these are spread over the period from 10 to 21 months earlier. So a payment made in January 2018 relating to 2016-17 liabilities would be accrued back and spread evenly over the whole of the 2016-17 financial year.

A.20 One feature of the new National Accounts methodology is that the time-shifting of cash receipts can result in a policy change having an effect on recorded receipts prior to the year in which it comes into effect.

A.21 In the July 2015 Budget, the Government decided to bring the CT payment date for the largest non-oil companies forward by four months, with effect from April 2017. In Budget 2016, it delayed the start of the policy to April 2019. The change in the National Accounts methodology in effect removes the large impact that the measure had on our borrowing forecast when CT receipts were recorded on a cash basis. We adjusted for this consequence of the methodological change in our November forecast. In this forecast we have moved to the new methodology for all aspects of our CT forecast. Table A.4 shows how this has affected our current estimates of the effect of the largest CT measures:

- '**July 2015 CT rate cut**' – the Government announced the CT rate was to be reduced from 20 to 19 per cent in 2017-18 and then to 18 per cent in 2020-21. Relative to the cash-basis, on a time-shifted accruals basis the cost of these cuts are concentrated in the years that they take effect rather than being spread over subsequent years in line with the lags in the payment pattern for large and small companies;

- '**March 2016 CT rate cut**' – this announcement reduced the CT rate by a further 1 percentage point in 2020-21, so the costing reflects the change from 18 to 17 per cent. Again, the time-shifted accruals basis focuses the cost of the cut in the year that it takes effect;

- '**restrict relief for interest**' – this Budget 2016 measure restricted the tax deductibility of corporate interest expense. The time-shifted accruals method records the yield from this measure sooner, with a relatively large effect on 2017-18;

- '**dividends tax reform**' – the July 2015 package of measures on the taxation of dividends has a large effect on CT as it was expected to reduce tax-motivated incorporations. This effect is assumed to come via small companies that would otherwise have been paying CT with a relatively long lag, so the new methodology brings forward the effect by around a year relative to the yield on a cash basis;

- '**reform loss relief**' – this Budget 2016 measure restricts the amount of brought forward losses a business is able to offset against taxable profits, but widens the use of losses from different streams for the same purpose. The time-shifted methodology brings the measured yield forward, with a relatively large effect in 2017-18 relative to the cash costing at the expense of future years; and

- '**bringing forward payments**' – as set out above, this measure mainly affected the timing of cash payments, which will be factored into the ONS methodology so will in effect have no effect on recorded receipts on a time-shifted basis. The effect may not be precisely zero in outturn due to variations in the timing of cash payments through the relevant years and some behavioural change that may affect liabilities, but we have assumed zero for the purposes of our central forecast.

Table A.4: Corporation tax: recosting of past measures using time-shifted accruals

		£ million				
		2017-18	2018-19	2019-20	2020-21	2021-22
July 2015 rate cut	Cash	-985	-2225	-2545	-3655	-4500
	Time-shifted accruals	**-2280**	**-2035**	**-2770**	**-4410**	**-4430**
	Difference	-1295	+190	-225	-755	+70
March 2016 rate cut	Cash	0	0	-205	-1400	-2575
	Time-shifted accruals	**0**	**0**	**-510**	**-2640**	**-2385**
	Difference	0	0	-305	-1240	+190
Restrict relief for interest	Cash	+750	+1150	+1415	+1160	+1015
	Time-shifted accruals	**+1105**	**+1140**	**+1080**	**+980**	**+1020**
	Difference	+355	-10	-335	-180	+5
Dividends tax reform	Cash	-45	-405	-680	-895	-1040
	Time-shifted accruals	**-465**	**-730**	**-925**	**-1085**	**-1275**
	Difference	-420	-325	-245	-190	-235
Reform loss relief	Cash	+370	+420	+420	+315	+215
	Time-shifted accruals	**+495**	**+355**	**+305**	**+255**	**+215**
	Difference	+125	-65	-115	-60	0
Bringing forward payments[1]	Cash[2]	0	0	+6105	+3815	neg
	Time-shifted accruals[3]	**0**	**0**	**-5**	**-5**	**-5**
	Difference	0	0	-6110	-3820	neg

Note: This table shows the current estimate of the onshore corporation tax elements of these measures. It does not include the effects on other tax heads.

[1] This includes the combined effect of both the original July 2015 measure and the two-year delay announced in March 2015.

[2] The cash effects were removed from our forecast in November, so are shown here for illustration only. The numbers here do not align precisely with those in Table 4.11, which shows the amounts removed from our forecast in November.

[3] The amounts in later years reflect a small behavioural response.

Policy delays

A.22 In order to certify costings as central, we need to estimate when – as well as by how much – measures will affect the public finances. Many of the Government's previously announced policy measures were subject to uncertainty over the timing of delivery, and a number have subsequently been delayed. These include:

- '**tax-free childcare**' – originally announced in Budget 2013, tax-free childcare (TFC) was to be launched in autumn 2015 with the existing employer supported childcare, which affects our income tax forecast, due to close to new entrants at the same time. In July 2015 we were informed the TFC launch would be delayed by 18 months following a legal challenge to the Government's decision to deliver the scheme through NS&I. At Budget 2016 the Government informed us the policy would be rolled out more gradually, but from an unchanged February 2017 start date. The Government has now pushed the start date back once more – to April 2017, although that is still subject to Ministerial confirmation. We have assumed that the pace of take-up thereafter will be slower than was assumed in our November forecast;

- '**right to buy: pilots**' – at Autumn Statement 2015 the Government announced a pilot scheme of right-to-buy for five housing associations. At Budget 2016 it was estimated to have a fiscal cost of £75 million from 2017-18 to 2019-20. The pilot was capped at 600 completed sales by the Government, though the housing associations involved limited sales to 555, and was expected to run until May 2016. The pilot was delayed due to the process of applications taking longer than expected and there being a longer lag between issuing instructions to solicitors and completions being achieved.[2] A larger pilot was announced at Autumn Statement 2016. We asked for the costing for this latest pilot to be adjusted in light of the possibility of similar delays;

- '**stamp duty land tax: bringing forward payments**' – in November 2015 the Government announced a reduction in the window during which SDLT liabilities can be paid without penalty from 30 to 14 days. This measure was due to come into effect in 2017-18, but following consultation has been delayed into the next financial year after concerns raised by respondents that the original timeframe was too challenging. The delay reduces SDLT receipts by around £100 million in 2017-18, and raises them by a similar amount in 2018-19. As we have previously noted, in fiscal terms this is purely a timing effect that will provide a one-off boost to receipts in 2018-19 without any change to the level of liabilities. The ONS has signalled that it may review the way SDLT receipts are recorded in the public finances. If it decides to record SDLT in accruals rather than cash terms, as with CT, the yield from this measure would in effect be zero. Such a classification would affect the similar measure that changes the payment window for CGT on residential property gains (see paragraph 4.23);

- '**worldwide disclosure facility (WDF)**' – this was announced as part of the March 2015 measure 'evasion: common reporting standard'. It gave UK taxpayers the opportunity to disclose their tax affairs voluntarily before HMRC received details about offshore financial accounts as part of an international exchange of information involving over 100 countries. In 2016 we were informed that there was to be a one year extension to the effective closure date from September 2017 to September 2018. The Government then decided to delay the launch date from April 2016 to September 2016 and HMRC has now confirmed the delay will mean there is negligible yield in 2016-17 though expect to recoup this ahead of the effective closure date. We now expect the WDF to yield £330 million from 2017-18 to 2018-19, instead of the original £360 million from 2016-17 to 2017-18. At the time of the original costing we gave this measure a 'very high' uncertainty ranking and this remains the case. We will continue to monitor

[2] See Cole, Pattison, Reeve and While (2017): *The Pilot Programme for the Voluntary Right to Buy for Housing Associations: an action-learning approach. Project Report*. Sheffield Hallam University for the National Housing Federation.

both the WDF and the common reporting standard, for which exchange of information begins in September 2017. The similar, but unrelated, '**Liechtenstein disclosure facility**' and '**UK-Swiss tax agreement**' are now coming to an end. We have revised down the remaining yield from these facilities by a combined £110 million to reflect the latest lower-than-expected outturns. The overall performance of these measures will be evaluated ahead of our next *EFO*;

- '**DWP operational measures: ESA and PIP presenting officers**' – this Budget 2016 measure was intended to increase the number of DWP presenting officers attending first-tier tribunals to assist in the decision-making process for personal independence payment and employment and support allowance appeals. As we set out in our March 2016 *EFO*, DWP was given £22 million for recruitment and we were told the process would take six months. DWP has now informed us that there was a delay in recruiting the relevant officers – partly because it became apparent that it could disrupt DWP's broader activities. DWP expects the first tranche of officers recruited to be trained and in tribunals from the end of this month. The savings from the measure have been pushed back a year as a result of these delays;

- '**disguised remuneration: tackling historic and new schemes**' – this measure, announced in March 2016, tackles the use of tax avoidance schemes, often through the use of employee benefit trusts, that affect income tax and national insurance contributions. As it targets both existing and future use of these schemes it leads to an odd profile where yield peaks in 2019-20 before falling away sharply. As we set out in paragraph A.5 the Government has decided to delay the close companies' gateway element of the measure by one year. We have also made an adjustment to allow for the latest outturn data from HMRC's use of accelerated payments notices, with which this measures interacts. Taken together, these two changes increase yield in the peak year by £70 million and reduce it across the other years by a combined £130 million;

- '**making tax digital**' – in November 2015 the Government announced an HMRC initiative to interact digitally with small businesses across income tax, corporation tax and VAT, working with the private sector to introduce software that will design out record-keeping errors in taxpayers' returns. At the time we gave it a 'high' uncertainty ranking, especially in terms of deliverability. When we certified this measure we paid close attention to the amount of contingency built into the delivery plan. HMRC has used up some of this contingency, but the latest information suggests that delivery remains on track for an April 2018 launch. However, there have been two policy changes in this Budget that have affected the expected yield from the measure, only one of which was presented on the Treasury's scorecard. The concession on the use of spreadsheets is presented as a non-scorecard measure in paragraph A.5. The second measure is a one year delay to the implementation of the income tax self-assessment element for businesses and landlords with a turnover below £89,000. Both measures reduce the expected yield from 'making tax digital'; and

- '**part-time maintenance loans**' - in November 2015 the Government announced a new system of financial support through maintenance loans for part-time higher education students. At this Budget, the Government has decided to delay until 2019-20 the loans for students undertaking technical qualifications at levels 4 and 5 and the distance learning aspects of the measure. It has also introduced an age cap of less than 60 years. These changes will reduce loan outlays by around £0.4 billion in total from 2018-19 to 2021-22. The Government has told that us it intends to reduce the level of support for distance learners, but the precise extent of that reduction has not been settled. In the absence of firm policy on the parameters involved, we have not included this effect in our central forecast and instead note it as a fiscal risk. Any reduction in support would reduce loan outlays and the cash requirement.

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

- '**dividends tax reform**' – the July 2015 reforms to the taxation of individual dividend income raised the basic, higher and additional rates by 7.5 percentage points and introduced a tax-free allowance on the first £5,000 of annual dividend income above the personal allowance. It came into effect in April 2016 and was expected to increase self-assessment income tax receipts in 2016-17 (which relate to 2015-16 income) by £2.6 billion, as we expected a large amount of income to be brought forward ahead of the tax rise. As we discuss in Box 4.3 in Chapter 4, the latest self-assessment income tax data suggest that this was an underestimate. We now believe £4.0 billion of receipts in 2016-17 were related to dividend income that was brought forward. Since this income shifting will unwind over time, we now expect receipts in 2017-18 to be £4.8 billion lower instead of the original estimate of £2.9 billion;

- '**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. It was initially estimated to raise around £0.3 billion in 2015-16 and £0.6 billion in 2016-17 – estimates subject to considerable uncertainty. In the event, the measure has raised far more than anticipated – £1.5 billion in 2015-16, while our latest estimate for 2016-17 is £1.1 billion. The original costing assumed individuals would spread their withdrawals over four years, but the latest HMRC information points to larger average withdrawals than we expected so we have shortened this assumption to three years. This brings forward the peak year of yield from 2018-19 to 2017-18. HMRC data also suggest that the average tax rate on withdrawals might be higher than originally expected. Some individuals are taking larger amounts than they would have been able to purchase through an annuity, thereby creating a higher tax liability. We now expect the measure to bring in £1.6 billion in 2017-18 and around £0.9 billion a year for the remainder of the forecast;

- '**national insurance contributions: contracting out**' – this measure, associated with the introduction of the single-tier state pension, was announced in March 2013 and took effect from April 2016. It removed the ability for members of a defined benefit pension scheme (which are most prevalent in the public sector) to contract out of the second state pension, which reduced their NICs liabilities. There is also an effect from the loss of the contracted-out national insurance rebate. The original costing expected to raise

£5.6 billion in 2016-17. Initial indications suggest the yield this year could be a little higher at £5.9 billion. HMRC data indicate the strongest receipts growth has been in those sectors most affected by this measure, particularly the public sector;

- '**stamp duty land tax: higher rates on additional properties**' – in November 2015, the UK Government announced a 3 per cent SDLT surcharge on purchases of buy-to-let properties and second homes, and followed this at Budget 2016 by removing an exemption for large corporate purchasers. Coming into effect in April 2016, the surcharge was due to raise £4.1 billion in total from 2016-17 to 2020-21. We assigned both measures a 'high' uncertainty rating due to low quality data and the difficulty of estimating the size of the behavioural effect. The four month gap between announcement and implementation allowed buyers to bring forward transactions and avoid the surcharge. While we allowed for this behaviour in the original costing, the extent of it was significantly underestimated. Despite this, the measure has raised much more than originally expected – our latest estimate for 2016-17 is £1.3 billion compared to £0.7 billion in the original costing. However, taxpayers can claim a refund if they sell their main residence within 36 months so we will not know the final net impact in 2016-17 for over three years. HMRC does not publish the level of refunds, but Revenue Scotland does for the similar policy in Scotland, although refunds need to be claimed within 18 months. The Scottish data report that refunds have amounted to 20 per cent of the original yield for early cohorts of taxpayers;[3]

- '**creative reliefs**' – since 2012 the Government has brought in a number of creative sector tax reliefs for specific activities – the 'high-end' television industry, children's television, the video games sector, animation production, theatre productions, museums and galleries, and orchestras – and it expanded the film tax relief. Outturn data for some of these are now available. The high-end television relief, announced at Autumn Statement 2012, has cost £205 million in the three years to 2015-16, compared to the original estimate of £75 million over that period. The cost of tax relief for video games and animation was estimated in a single costing. The most recent published estimate at Budget 2013 suggested it would cost £115 million in the three years to 2015-16. In fact it has cost £65 million over that period, partly due to a one-year delay in the start date – a change not shown on the Treasury's scorecard. The largest relief by far is for film tax production. It originally came into effect in 2007, so we are unable to compare outturns to the original costing. In the nine years that it has been available, it has cost a total of £1.8 billion. The cost has risen steadily from £105 million in 2007-08, to £200 million in 2010-11 and £340 million in 2015-16, the most recent year of outturn;

- '**voluntary national insurance contributions**' – in March 2014 the Government announced it was introducing a time-limited opportunity for eligible pensioners to buy extra units of state pension with lump-sum 'Class 3A' NICs, on a voluntary basis. It was open for an 18-month period from October 2015, so is due to close in April 2017. The costing was heavily dependent on assumptions about the level of take-up

[3] Our forecast for net revenue from the additional properties surcharge is available in a supplementary fiscal table on our website.

and in our *EFO* we highlighted the high uncertainty around this. The original measure assumed take-up would be 265,000, with £870 million of NICs payments expected in total, leading to higher state pensions spending over the longer term. DWP has informed us that actual take-up in the 15 months to January 2017 was just 7,600;

- '**VAT: foreign branches**' – this Budget 2015 measure, mainly affecting the financial sector, responded to a ruling by the European Court of Justice that the method for calculating deductible VAT incurred by UK businesses in supporting their overseas branches had to conform to certain rules. It was expected to come into effect in August 2015, but we were informed at Autumn Statement 2015 that it was to be delayed – the effect of this was not presented on the Treasury's scorecard. We have now been told this measure has had no effect on revenue receipts due to "*technical problems affecting implementation*". It was originally expected to generate £385 million in total between 2015-16 to 2019-20, but that has now been revised to nil;

- '**alcohol fraud: wholesaler registration**' – this HMRC operational measure was announced in December 2013 but not expected to be fully in effect until 2017-18. At the time, we highlighted considerable uncertainty associated with the difficulty in accurately estimating the level of illicit activity and anticipating the likely response of taxpayers, particularly given the unusually long lag between announcement and operation. The measure was originally expected to raise £230 million in 2017-18 but this has been revised down after new data from HMRC suggesting the number of wholesalers involved in illicit activity is around 60 per cent lower than originally estimated. This is partly offset by a higher than expected average yield per case. We now expect this measure to raise £115 million a year across the forecast. HMRC has informed us they remain on track to advise all wholesalers who applied by the March 2016 deadline on whether their application has been approved. A list of approved wholesalers is due to be published by 1 April 2017;

- '**soft drinks industry levy**' – this Budget 2016 measure was originally expected to raise £520 million in 2018-19 before falling as producers continued to lower the sugar content in their drinks to reduce their liability, and some non-compliance. The latest industry information suggests that the behavioural assumptions in the original costing underestimated the pace and extent of this reformulation. This reduces the yield we expect from the measure, which is partly offset by the effect of the non-scorecard measure described in paragraph A.5. We now expect the levy to raise around £380 million a year from 2018-19;

- '**bank surcharge**' – this measure imposed an 8 per cent corporation tax surcharge on banking company profits above £25 million. It was announced in July 2015 and was to be charged on profits arising after 1 January 2016. We originally gave it a 'very high' uncertainty rating mainly because of the difficulty in predicting the profitability of banks and also their likely behavioural response. Our latest forecast for 2016-17 suggests that – on a like-for-like cash basis – first year receipts have outperformed expectations. We now forecast £1.1 billion compared to the original £0.9 billion;

- '**removal of the spare room subsidy: legal challenge**' – the removal of the spare room subsidy, more commonly known as the 'bedroom tax', was the June 2010 measure 'Social sector: limit working age entitlements to reflect size of family from 2013-14' and has been in effect since April 2013. It reduces housing benefit and universal credit payments from claimants that have one or more spare rooms. In November 2016 DWP lost two legal challenges that will result, from April 2017, in one additional room being allowed in the entitlement calculations for certain claimants – where a couple are unable to share a room due to disability, or where a disabled child or non-dependent adult requires and has a non-resident overnight carer. This increases spending by around £70 million a year; and

- '**30 hours free childcare**' – this July 2015 measure is due to launch in September. As with TFC, we have made a small adjustment to the expected reduction in tax credits and associated welfare spending from the introduction of 30 hours of free childcare for working families, where it seems likely that the supply of places will rise more slowly over the first two years than originally assumed.

Departmental spending

A.24 We do not scrutinise costings of policies that reallocate spending within departmental expenditure limits (DELs) or the DEL implications of measures that affect receipts or AME spending. Instead, we include the overall DEL envelopes for current and capital spending in our forecasts, plus judgements on the extent to which we expect them to be over- or underspent in aggregate. In this Budget, the Government has increased departmental spending totals. It has chosen to present only some of these increases on its scorecard. These and other changes are set out in detail in Chapter 4.

Indirect effects on the economy

A.25 The Government has announced a number of policy changes in this Budget and since the Autumn Statement that we have judged to be sufficiently large to justify adjustments to our central economic forecast. These include effects on:

- **real GDP growth** – the Government has very modestly loosened fiscal policy in aggregate in the near term, largely by increasing departmental current spending. This has small effects on the profile of real GDP growth, adding less than 0.1 percentage points in 2017-18 and subtracting even smaller amounts each year thereafter; and

- **inflation** – on 27 February, the Ministry of Justice announced a reduction in the personal injury discount rate to minus 0.75 per cent. We estimate the effects on motor insurance premiums and employer liability insurance premiums will increase inflation over the coming year. The effect on CPI inflation is a little under 0.1 percentage points, but the effect on RPI inflation is higher at a little over 0.2 percentage points (due to the higher weight of motor insurance in the RPI than in the CPI).