

21 November 2018

## Supplementary forecast information release

### HMRC tax reliefs

- 1.1 The OBR is releasing this information following a request for further detail underlying our October 2018 *Economic and fiscal outlook (EFO)* analysis of the cost of HMRC tax reliefs for entrepreneurship and the 'creative' sector, published in Annex A of that document. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.
- 1.2 We looked at five separate types of schemes. The historical cost of these reliefs was obtained from published HMRC statistics.<sup>1</sup> The forecasts for 2018-19 and subsequent years are our own forecasts and are consistent with our broader economic and fiscal forecasts.
- 1.3 **Entrepreneurs' relief, creative reliefs** and the **research and development (R&D) tax credits** forecasts are routinely produced as parts of our capital gains tax (for entrepreneurs' relief) and onshore corporation tax (for the latter two) forecasts. We publish our R&D tax credits forecast separately in supplementary fiscal table 2.5 as they are the largest component of corporation tax credits. The methodologies used to forecast the cost of these reliefs form part of our standard forecast processes.<sup>2</sup> The entrepreneurs' relief and R&D tax credits forecast methodologies are both currently under review given relatively large movements in recent outturn estimates.
- 1.4 The forecasts for the cost of **venture capital investment schemes** and the **patent box** are generated by projecting forward the 2016-17 outturn data (the latest available estimates) in line with our forecast for nominal GDP. This is the approach we typically adopt when projecting forward the cost of policy changes once they have reached close to steady state in the cases in which we do not model them explicitly. It is more illustrative than the fuller forecast methodologies used for the other items.
- 1.5 HMRC uses two different accounting bases when publishing outturn estimates for the cost of the different reliefs. Venture capital investment schemes, the patent box and entrepreneurs' relief are calculated on an accruals basis – that is, they represent the year in which the underlying activity took place, rather than when payments to HMRC are relieved. Creative reliefs and R&D tax credits are presented on a cash basis – that is, the year in which the tax was relieved or the tax credit was paid by HMRC. We have followed the same approach in forecasting the cost of these reliefs. Figures presented on an accruals basis will typically be

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<sup>1</sup> HM Revenue and Customs, *Principal tax reliefs: Estimated cost of tax reliefs*. HM Revenue and Customs, *Patent box reliefs statistics*, September 2018. *Creative Industry Statistics*, July 2018. *Research & Development Tax Credits Statistics*, September 2018.

<sup>2</sup> We model creative reliefs and R&D tax credits explicitly as part of our corporation tax forecast. The cost of entrepreneurs' relief is derived from the forecast for receipts collected through the reduced entrepreneurs' relief rate of capital gains tax.

slightly higher than those presented on a cash basis in any given year due to the growth in the cost of these reliefs and the lag between the right to use a relief or tax credit being accrued and it affecting cash payments, but the use of different accounting bases across the tax reliefs does not alter the upward trend in the cost of these reliefs.

**Table 1.1: Breakdown of the latest estimate and forecast of the cost of creative and entrepreneurial reliefs** <sup>(3,4)</sup>

Data source	Tax relief Basis of figures	£ billion						All reliefs
		Entrepreneurs' relief Accruals	Venture capital investment schemes Accruals	Patent box Accruals	R&D tax credits Cash	Creative reliefs Cash		
HMRC outturn data	2010-11	1.2	0.4	0.0	1.1	0.2	2.9	
	2011-12	1.2	0.5	0.0	1.1	0.2	3.1	
	2012-13	2.4	0.6	0.0	1.2	0.2	4.4	
	2013-14	2.7	0.8	0.4	1.3	0.2	5.4	
	2014-15	3.5	0.8	0.7	1.7	0.4	7.0	
	2015-16	4.2	0.8	0.8	3.1	0.5	9.4	
	2016-17	2.4	0.7	0.9	3.5	0.7	8.3	
OBR forecast (October 2018)	2017-18	2.7	0.8	1.0	3.5	0.9	8.8	
	2018-19	2.6	0.8	1.0	3.6	0.9	8.9	
	2019-20	2.7	0.8	1.0	3.6	0.9	9.1	
	2020-21	3.0	0.9	1.1	3.6	0.9	9.5	
	2021-22	3.2	0.9	1.1	3.7	1.0	9.9	
	2022-23	3.5	0.9	1.2	3.8	1.0	10.4	
	2023-24	3.9	1.0	1.2	3.9	1.0	11.0	

Source: HMRC, OBR

<sup>3</sup> For the patent box, only partial outturn data are currently available for 2016-17. The patent box reliefs statistics published by HM Revenue and Customs in September 2018 estimate that the data has coverage of 86 per cent based on an analysis of patent box claims in previous years. No adjustment has been made to this data when producing the forecast.

<sup>4</sup> For R&D tax credits and Creative reliefs, the 2016-17 outturn data used as a basis for the forecast are partial data. This has not been adjusted when producing the forecast.