Office for
Budget Responsibility

27 August 2026

Supplementary forecast information release

Costing of government response to the loan charge independent review

1.1 The OBR is releasing this information following a request for further detail in respect of the costing of the government response to the loan charge independent review, in our November 2025 *Economic and fiscal outlook*. 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 This release briefly describes the measure, sets out the data sources and modelling used to estimate the costing, and discusses the main sources of uncertainty around this central estimate, following the OBR's policy costings process.[1] As set out in the *Charter for Budget Responsibility*, the Government is responsible for producing all policy costings. In the case of tax policies the costings are typically produced by HMRC. The OBR's role is to provide independent scrutiny and certification of whether the Government's policy costings are reasonable and central. This means that the full datasets underpinning tax policy costings are generally held by HMRC. Therefore, requests for access to any datasets not available at the sources referenced in this note should be directed to HMRC.

Policy description

1.3 The loan charge was introduced in 2017 to tackle historical use of tax avoidance schemes seeking to avoid income tax and National Insurance by disguising remuneration as a form of non-taxable payment (typically a loan).[2] An independent review of the loan charge was subsequently undertaken, starting in January 2025. The review's report was published at Budget 2025 and the government announced that it would accept all but one of the review's recommendations.[3] Legislation providing for a settlement scheme was introduced in 2026 and the regulations establishing the scheme came into force from August 2026. Those eligible for the settlement scheme will receive a £5,000 reduction in their outstanding liabilities and be able to offset a proportion of their fees. In addition, HMRC will forgo late payment interest, not collect inheritance tax (IHT) that has arisen from the use of trust structures, and will only charge penalties in egregious cases. The total value of discounts is capped at £70,000 per customer.

[1] See our *Briefing paper No. 6: Policy costings and our forecast*, March 2014.
[2] See HMRC, *Tackling disguised remuneration avoidance schemes overview of changes and technical note,* March 2016 for further information.
[3] See HM Treasury, *Independent Review of the Loan Charge,* January 2025 and HM Treasury, *Budget 2025 Policy Costings,* November 2025, page 86 for further information.

Data

1.4 The outstanding loan charge population (those with loan charge liabilities that have not been paid in full and are therefore considered to be in scope of the review) is estimated by HMRC at approximately 32,000 individuals and 5,000 employers, with estimated outstanding liabilities of approximately £3.8 billion as of March 2025.[4] However, additional interest that continues to accrue and charges mean that total collectable liabilities could be considerably higher.

1.5 The tax base for this measure is the estimated outstanding loan charge liabilities from individuals and employers that HMRC expected to collect without a policy change as a result of compliance activity (including agreeing settlements) and debt collection activity.

Table 1.1: Estimated yield from outstanding loan charge liabilities in the tax base

	Forecast				
	2026-27	2027-28	2028-29	2029-30	2030-31
Tax base (£m)	146	252	307	454	515

Source: HMRC

1.6 The tax base is split into two broad groups. Group 1a represents customers with at least one unresolved relevant disguised remuneration usage for the loan charge that HMRC can pursue (either because they haven't yet had their enquiry closed, haven't yet had a formal assessment of additional tax due, or have an ongoing appeal). This represents the majority of outstanding yield. Group 1b represents customers who have had all relevant disguised remuneration usages resolved after the loan charge arose but have not yet paid in full (so HMRC have formally assessed the additional tax due and this has not been appealed, or the customer has a resolved appeal).

Table 1.2: Total outstanding loan charge liabilities as a proportion for each group

	Per cent
	Proportion of total liabilities
Group 1a individuals	33.4
Group 1a employers	49.9
Group 1b individuals	12.0
Group 1b employers	4.8

Source: HMRC

1.7 Estimates of the tax base are based on a HMRC operational compliance database which was linked to self-assessment and contractual settlement data. There is no direct operational estimate of unresolved liability for customers in group 1a, so this is based on other available information such as a scheme average for tax at risk. Average discounts on settled yield are estimated using customer-level data on loan charge liabilities, including late payment interest, years of scheme use, and income (for individuals).

[4] This costing uses the estimates provided to the independent review of the loan charge as the starting point (£3.6 billion outstanding loan charge liabilities), revised to include penalties for all groups and estimated IHT.

Modelling

Static costing

1.8 The static costing is estimated by modelling two effects: the impact of the lag in restarting compliance activity that arises from implementing the policy changes, and the discount applied to expected yield due through this settlement opportunity.

1.9 The tax base with no policy change assumed HMRC would restart compliance activity from January 2026. With the policy change, the costing assumed there would be a lag between Autumn Budget 2025 and the planned implementation in Spring 2026, due to the government needing to introduce legislation before HMRC could write to all customers to offer them the chance to engage in and agree a settlement under the new settlement opportunity. This lag meant that some yield was shifted outside of the forecast period, and extra late payment interest was added which would increase total liabilities collected over the longer term.

1.10 Based on evidence from previous disguised remuneration settlement opportunities, 60 per cent of individuals and 70 per cent of employers who settle are assumed to pay within one year. For those who chose to pay in more than one year, the static costing assumes they will pay over 5 years, based on the observed median payment plan length under previous settlement opportunities.

1.11 The independent review of the loan charge made a number of recommendations, and the government announced that it is accepting all but one of the review's recommendations. The static yield therefore also captures the average settlement discount applied to the settled yield in the tax base across the population from each recommendation. The recommendations are applied to the outstanding loan charge liability in the following order using the following key assumptions.[5]

- Unstacking the tax years (recommendation 3a): the loan charge tax liability is recalculated by unstacking the tax years so that it is based on income subject to the loan charge and rates in the years that the loan was received, rather than the loan charge taxing all disguised remuneration income in a single year.

- Removing late payment interest (recommendation 3c): late payment interest accrues from when the liabilities were due to the point at which the settlement is agreed. This is modelled alongside recommendation 3a as the total late payment interest accrued will be different on underlying liabilities rather than if calculated on the loan charge liability.

- Applying a promoter fees discount (recommendation 3b): this effectively provides a tax credit for the amount assumed to have been paid to promoters through a write-off up to 10 per cent of the gross scheme income per year of tax avoidance (tapered by

[5] As the costing was produced before the settlement scheme legislation was finalised, in practice the exact operational delivery of the scheme and application of discounts for any customer may differ to the approach assumed by the costing modelling.

income). Employers can access the same settlement terms as individuals. This is modelled by assuming that the individual directors associated with the employers will settle as individuals, with 1.5 individuals assumed to settle per employer on average. In some cases a customer could have both an individual and employer liability for the same usage. To avoid applying this discount twice, the median yearly discount for individuals is removed when calculating the yearly discount for directors settling their employer liability.

- £5,000 flat fee discount: similarly, to avoid applying the discount twice to directors, the median value of the discount is again removed from the employers' discount.

- Remove inheritance tax (IHT) (recommendation 3e): the loan charge doesn't impose an IHT liability specifically, but IHT liabilities may arise in relation to income received through disguised remuneration schemes more generally. Estimates supplied to the review show that approximately 2 per cent of individuals had IHT liabilities included within their settlement and 30 per cent of employers did. IHT is assumed to be 1 per cent of total individual liabilities and 3 per cent for employers.

- Remove penalties (recommendation 3d): using data provided to the review by HMRC, penalties are assumed to be 1 per cent of total individual liabilities and 3 per cent for employers.

- Apply £70,000 discount cap: the discount cap restricts the total discount a customer can receive from recommendations 3a, 3b, 3c plus the £5,000 discount to £70,000.[6]

1.12 Table 1.3 sets out the average static discount for individuals and employers applied to settlements. The total discount for employers is lower than for individuals because the discounts from recommendation 3b and the flat £5,000 discount are fixed amounts, and employers have much higher liabilities on average than individuals (£160,000 compared to £21,000).

[6] Recommendations 3d and 3e are not part of the capped discount since they mean that IHT and penalties are not applied.

Table 1.3: Estimated average discount to the settlement yield from policy recommendations

Policy recommendation	Per cent Individuals	Per cent Employers
Unstacking and no late payment interest (3a & 3c)	34	38
Promoter fees discount (3b)	47	5
£5,000 discount	16	0
No inheritance tax (3e)	1	3
No late payment penalties (3d)	1	3
Total discount	**71**	**45**
Applying £70,000 cap	51	9
Total discount with £70,000 cap	**52**	**14**

Note: The recommendations are applied on top of one another. The discount associated with each recommendation is as a per cent of the total liabilities after all previously calculated discounts. The total discount from the recommendations (except 3d and 3e) is capped at £70,000 so the average discount is estimated after capping the liabilities.
Source: HMRC

Behavioural response

1.13 The settlement opportunity is expected to incentivise customers to settle their loan charge liabilities due to offering substantial discounts, reducing some customers' liabilities to zero, and providing greater transparency on settlement opportunities and how HMRC will pursue unsettled liabilities. The behavioural response is a key source of uncertainty in this costing. Evidence from research into the impact of financial incentives on debt repayment and evidence from previous settlement opportunities are used to inform behavioural assumptions used.

1.14 The behavioural response is modelled as an increase in the proportion of customers settling relative to the baseline. There are three groups who are assumed to respond to the settlement opportunity differently, which is also dependent on their original behaviour.

- Individuals whose liabilities are estimated to reduce to zero or have discount rates of around 90 per cent as a result of the £5,000 flat fee discount, are all assumed to agree a settlement. These individuals account for 10 per cent of total liabilities. No employers are expected to have their liabilities reduce to zero.

- Approximately 15 per cent of individuals in the loan charge population have continued to engage in avoidance schemes between 2021-22 and 2023-24. It is assumed that these individuals all have liabilities proportional to the wider population, did not originally engage with HMRC, and will all not respond to the incentive to settle under the new settlement opportunity.

- The remaining group are those who have not been identified as engaging in ongoing avoidance schemes in recent years, but still have a positive liability due after the £5,000 discount has been applied. Behaviour of this group is assumed to be proportional to the discount. Customers who are assumed to appeal HMRC's assessments of the tax due in the baseline are assumed to be three times more responsive to the reduction in liabilities than those who are assumed not to initially engage with HMRC. The propensity to respond to the incentive is assumed to be 75 per cent of the static discount for liabilities of customers who appeal in the baseline, and 25 per cent for customers who haven't previously engaged with HMRC.

1.15 Table 1.4 shows the proportion of liabilities associated with each customer group that are assumed to choose to settle, appeal, not engage with HMRC or who are already paying.

Table 1.4: Customer group and action by liability share in the tax base and under the policy change

	Per cent			
	Individuals		Employers	
	Group 1a	Group 1b	Group 1a	Group 1b
Tax base (no policy change)				
Agree a settlement	10	10	5	20
Appeal	50	20	95	0
Not engage with HMRC	40	70	0	30
Already paying	0	0	0	50
Behavioural (with settlement opportunity)				
Agree a settlement	39	32	15	22
Appeal	27	11	85	0
Not engage with HMRC	33	57	0	28
Already paying	0	0	0	50

Source: HMRC

Final costing

1.16 The central estimate for the costing is an initial slight decrease in revenue of £0.1 billion due to the implementation lag, with a similar decrease in the final year of the forecast period as there is no longer an increase in revenue from the behavioural response.

Table 1.5: Costing of the government response to the loan charge independent review

	£ million				
	Forecast				
	2026-27	2027-28	2028-29	2029-30	2030-31
Total static costing	128	132	80	157	43
of which:					
Implementation lag	116	83	34	136	29
Policy recommendations	11	49	46	21	14
Behavioural response	-21	-120	-116	0	54
Other adjustments[1]	-14	16	0	-1	-1
Total post-behavioural costing	**93**	**28**	**-35**	**156**	**96**

[1]Other adjustments include conversion to National Accounts basis and consequences of decisions for the block grant adjustment.
Note: This table uses the convention that a negative figure means a reduction in PSNB.
Source: HMRC, OBR

1.17 This policy costing was assigned a 'high' uncertainty rating.[7] There is a high level of uncertainty around the behavioural response of customers. There is also uncertainty regarding the implementation profile, although much of this impact would beyond the forecast period.

[7] See the 'Policy costings uncertainty ratings database – November 2025' spreadsheet at OBR, *Policy costings*, November 2025.