A Autumn Statement 2016 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 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 the process is complete, the Government chooses which measures to implement and what costings to include in the 'scorecard' in its Budget or Autumn Statement document. We choose whether to certify the costings as 'reasonable and central', and whether to include them – or an alternative – in our forecast.

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

A.3 The costings process worked reasonably efficiently, with fewer measures submitted just before the deadline than in recent fiscal events. But there were once again a very large number of measures submitted for scrutiny.

A.4 Table A.2 reproduces the Treasury's scorecard, with further details in Chapter 4 and the Treasury's *Autumn Statement 2016 policy costings document*, which summarises very briefly the methodologies used to produce each costing and the main areas of uncertainty.

Policy decisions not on the Treasury scorecard

A.5 In this *EFO* we have shown the effect on our forecasts for receipts and AME spending of a number of policy decisions that the Treasury has chosen not to present on its scorecard. These effects are presented in Table A.1. They include:

- '**annuities: secondary market**' – this measure was announced in March 2015 and was designed to allow people already receiving pension income from an annuity to sell that income stream to a third party, taking the value either as a lump sum or transferring it to an alternative, taxable, retirement income product. It was originally due to begin in April 2016, but in July 2015 the Government announced a one-year delay. The Government has now decided to cancel it completely. In our March 2015 *EFO* we gave this costing a very high uncertainty ranking, noting that there might be little interest from pensioners and that a secondary market might not develop. The latter

proved correct. The decision not to pursue this policy costs £0.9 billion over 2017-18 and 2018-19, with £0.4 billion of that recouped in the remaining years of the forecast;

- '**business rates transitional relief**' – this sets an annual cap on the increase in business rates bills associated with the April 2017 revaluation, with the limit determined by a property's rateable value. It is designed to be revenue neutral, as required by legislation, with the cost of providing relief to some taxpayers offset by higher rates for others. Similar arrangements associated with the last two revaluations operated at a loss despite also being designed to be revenue neutral. On this basis, our March forecast assumed that the 2017 scheme would also operate at a cost. The Government has sought to ensure that the latest scheme will be fiscally neutral in outturn, not just when planned. We have considered its parameters and believe that our central forecast *should* assume that it will be fiscally neutral. Relative to March, this adds £0.8 billion to business rates in 2017-18 and smaller amounts in later years;

- '**VAT on energy saving materials**' – in November 2015 we adjusted our VAT forecast to reflect the Government's assumption that it would comply with an EU court ruling that meant that the reduced rate of VAT (5 per cent) could no longer be applied to the installation of energy saving materials in residential properties. The Government has now informed us that it has postponed that change until an unspecified future date. We have therefore removed the effect from our forecast, which reduces receipts by £50 million a year on average from 2017-18 onwards, and by less in 2016-17; and

- '**Network Rail spending**' – the Government will not set Network Rail's final 'Control Period 6' spending baselines until nearer the end of the current control period, but it has provided a policy assumption that raises capital spending by an average of £1.3 billion a year in 2019-20 and 2020-21. We have recorded this as a non-scorecard measure since it would not have featured in our forecast absent that change in Government assumption.

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

	£ million					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Annuities: secondary market	0	-470	-475	+120	+115	+115
Business rates transitional relief	0	+755	+475	+250	+145	-90
VAT on energy saving materials	-10	-20	-40	-35	-85	-90
Network Rail spending	0	0	0	-1280	-1080	-875

[1] 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.

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
			2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
Changes to Inherited Policy									
1	Personal Independence Payment: not implementing Budget 2016 measure	Spend	-15	-605	-1,250	-1,400	-1,390	-1,410	Medium-high
2	Universal Credit: reprofile	Spend	-20	-295	-445	-185	-110	-425	Medium
3	Disability benefits: eligibility test change	Spend	-20	-20	-20	-20	-15	-15	Medium
4	Social Sector Rent downrating: exemptions	Spend	0	-5	-10	-15	-15	-15	Medium-low
5	Pay to Stay: do not implement	Spend	0	-280	-15	-100	-100	-105	Medium-high
6	Local Housing Allowance: adjusted roll-out and supported housing fund	Spend	0	0	-305	-265	+160	+125	Medium-high
Public spending									
7	Efficiency Review: reinvestment	Spend	0	0	0	-1,000	-	-	N/A
National Productivity Investment Fund									
8	Housing	Spend	-10	-1,465	-2,060	-2,490	-2,145	-	N/A
9	Transport	Spend	0	-475	-790	-705	-1,050	-	N/A
10	Telecoms	Spend	0	-25	-150	-275	-290	-	N/A
11	Research and Development	Spend	0	-425	-820	-1,500	-2,000	-	N/A
12	Long-term investment	Spend	0	0	0	0	0	-7,000	N/A
An economy that works for everyone									
13	Fuel Duty: freeze in 2017-18	Tax	0	-845	-845	-860	-885	-910	Medium-low
14	Universal Credit: reduce taper to 63%	Spend	0	-35	-175	-400	-570	-700	Medium
15	NS&I Investment Bond	Spend	0	-45	-85	-90	-45	0	High
16	Right to Buy: expand pilot	Spend	0	-25	-90	-110	-25	0	Medium
17	National Living Wage: additional enforcement	Spend	0	-5	-5	-5	-	-	N/A
Tax reform									
18	Insurance Premium Tax: 2ppt increase from June 2017	Tax	0	+680	+840	+840	+845	+855	Medium-low
19	National Insurance contributions: align primary and secondary thresholds	Tax	0	+170	+145	+145	+145	+145	Medium-low
20	Salary Sacrifice: remove tax and NICs advantages	Tax	-10	+85	+235	+235	+235	+260	High
21	Money Purchase Annual Allowance: reduce to £4,000 per annum	Tax	0	+70	+70	+70	+75	+75	Medium-high
22	Company Car Tax: reforms to incentivise ULEVs	Tax	0	0	0	0	+25	+5	High

Avoidance, Evasion, and Imbalances									
23	VAT Flat Rate Scheme: 16.5% rate for businesses with limited costs	Tax	0	+195	+130	+130	+125	+115	Medium-high
24	Disguised Remuneration: extend to self-employed and remove company deduction	Tax	+10	+25	+180	+310	+40	+65	Very high
25	Adapted motor vehicles: prevent abuse	Tax	0	+20	+15	+15	+15	+15	Medium-high
26	Employee Shareholder Status: abolish tax advantage for new schemes	Tax	*	+10	+15	+15	+25	+50	High
27	HMRC: administration and operational measures	Tax	-115	-20	+50	+170	+215	+180	High
28	Offshore Tax: close loopholes and improve reporting	Tax	0	+10	+25	+15	+60	+70	Very high
29	Money Service Businesses: bulk data gathering	Tax	0	0	+5	+5	+10	10	Medium-high
Other Tax and Spending									
30	Overseas Development Assistance: meet 0.7% GNI target	Spend	0	+80	+210	0	-	-	N/A
31	MoJ: Prison safety	Spend	0	-125	-245	-185	-	-	N/A
32	Grammar Schools expansion	Spend	0	-60	-60	-60	-60	-	N/A
33	Tax credits: correcting awards	Spend	-95	-80	-65	-55	-40	-25	Medium-low
34	Biomedical catalysts and Technology Transfers	Spend	0	-40	-60	-60	-60	-	N/A
35	DCMS Spending	Spend	-10	-10	-20	-15	-10	-	N/A
36	Midlands Rail Hub	Spend	0	-5	-5	0	-	-	N/A
37	Scotland City Deals and Fiscal Framework	Spend	0	-25	-60	-75	-50	-25	N/A
38	Mayfield Review of Business Productivity	Spend	0	-5	-5	-5	-	-	N/A
39	Business Rates: support for broadband and increase Rural Rate Relief	Tax	0	-10	-15	-15	-20	-25	Medium-low
40	Gift Aid: reforms	Tax	0	*	-10	-15	-15	-20	Medium
41	Museums and Galleries tax relief	Tax	0	-5	-30	-30	-30	-30	Medium-high
42	Social Investment Tax Relief: implement with a £1.5m cap	Tax	0	+10	+5	+5	*	-5	Medium-high
43	Offpayroll working: implement consultation reforms	Tax	0	+25	+20	+20	+25	+25	Medium-high
	TOTAL POLICY DECISIONS		**-285**	**-3,555**	**-5,695**	**-7,960**	**-6,925**	**-8715**	
	TOTAL POLICY DECISIONS EXCLUDING NPIF AND INHERITED POLICY		**-220**	**+40**	**+170**	**-5**	**+30**	**130**	
	Total tax policy decisions		**+25**	**+375**	**+640**	**+720**	**+565**	**555**	
	Total spending policy decisions		**-310**	**-3,930**	**-6,335**	**-8,680**	**-7,490**	**-9270**	

**negligible*

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

[2] At Spending Review 2015, the government set departmental spending plans for RDEL for years up to 2019-20 and CDEL for years up to 2020-21. RDEL budgets have not been set for most departments for 2020-21 and CDEL for 2021-22. Given this, RDEL figures are not set out for 2020-21 and CDEL for 2021-22.

A.7 Table A.3 shows the detailed criteria and applies them to a sample policy measure from this Autumn Statement: '**Insurance Premium Tax: 2ppt increase from June 2017**'. This is expected to yield £4.1 billion from 2017-18 to 2021-22 by raising the standard rate of insurance premium tax from 10 to 12 per cent. For this policy we have judged that the most important source of uncertainty will be data, followed by behaviour, then modelling.

A.8 The data used consist of high quality HMRC administrative data, so we consider this to be a 'medium low' source of uncertainty.

A.9 We consider the greatest uncertainty to be from the behavioural response to the change. As the tax rise is passed on by insurers, the cost of insurance will rise, reducing demand. The costing estimates the response of demand to these higher prices, known as the price

elasticity of demand. Direct evidence is not available, so the costing includes an assumption based on academic research. It also assumes that some consumers will bring forward their purchases before the tax rise. Again, this is judgement based, although it is not considered to be material to the costing. We consider this to be a 'medium' source of uncertainty.

A.10 The modelling is based on an HMRC forecasting model that has been subject to relatively small errors.[1] So we regard this as a 'medium low' source of uncertainty.

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

Table A.3: Example of assigning uncertainty rating criteria: 'insurance premium tax'

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	Low	High	Medium
Overall		**Medium-low**	

A.12 Using the approach set out in Table A.3, we have judged five measures in the scorecard to have 'high' uncertainty around the central costing and two to have 'very high' uncertainty. Together, these represent 16 per cent of the Autumn Statement scorecard measures by number and 6 per cent by absolute value (in other words ignoring whether they are

[1] In our 2016 *Forecast evaluation report* we showed the relative fiscal forecast errors at the two-year horizon across most of our receipts and spending forecasts. IPT forecast errors were the second smallest on the volatility-adjusted metric that we used.

expected to raise or cost money for the Exchequer). In net terms, they are expected to raise the Exchequer £2.2 billion in total over the forecast period. The measures are:

- **'offshore tax: close loopholes and improve reporting'** – we give this measure – which has several components targeting offshore evasion – a 'very high' uncertainty ranking. As with most offshore evasion and avoidance measures, estimating the current amount of tax lost and predicting the behavioural response of a group that are already changing their behaviour to avoid paying tax is hugely uncertain. With such little real information, modelling these effects can be highly complex. All elements of the costing receive a 'very high' ranking;

- **'disguised remuneration: extend to self-employed and remove company deduction'** – this combines two elements and receives a 'very high' uncertainty ranking for the one that raises the vast majority of the yield. That part aims to tackle use of schemes by the self-employed to avoid income tax and NICs, by ensuring that all payments to them are taxed, irrespective of their description. It is an extension of the Budget 2016 measure on employers and contractors. The main uncertainty was the behavioural effect, which is common for most avoidance measures. Some users can be expected to find new ways to get around the new proposed rules, whether through different avoidance schemes or outright evasion. Estimating the yield that will be lost from such responses, and how quickly that might build up, make this the key uncertainty in the costing. The data and modelling were both also highly uncertain;

- **'salary sacrifice: remove tax and NICs advantages'** – this receives a 'high' uncertainty ranking. It takes effect from April 2017, changing the amount of taxable benefit for benefits-in-kind provided in exchange for salary sacrifice. The main uncertainty was the data. Information on salary sacrifice take-up is sparse because there is no requirement to report on it to HMRC. As this measure expands the tax base, there was no administrative data to draw on. The costing therefore had to bring together many different data sources to estimate the tax base. Behaviour could also have a significant impact on the yield in 2017-18, because employers and employees may bring forward reviews of their salary sacrifice arrangements;

- **'HMRC: administration and operational measures'** – this measure contains a number of parts and receives a 'high' uncertainty ranking due to the largest. That element provides HMRC with additional resource of up to 200 full-time equivalent staff each year from 2018-19 to 2021-22, with the aim of capitalising on recent strengthening of HMRC's powers with supporting compliance activity. The main area of uncertainty is the number, value and timing of accelerated payment and follower notices that HMRC will issue. As such, the data element receives a 'very high' uncertainty ranking;

- **'NS&I Investment Bond'** – this receives a 'high' uncertainty ranking. In April 2017 the Government will launch a new 3-year savings bond that will be on sale for 12 months. It is open to all those aged 16 and over and is expected to pay an interest rate of 2.2 per cent, with individual deposits capped at £3,000. There is no upper limit to the number of people that can take up the bond. The key uncertainty is take-up, which will

depend on returns on other products available when it is launched. With the savings tax allowance having removed tax on savings income for most people, funds may be diverted from ISAs into this product. The latest available data showed 6.9 million people had saved more than £4,000 into an ISA in 2013-14. Previous NS&I products that offered particularly attractive rates have seen very high take-up or have been closed when more funds flowed into them more quickly than expected;

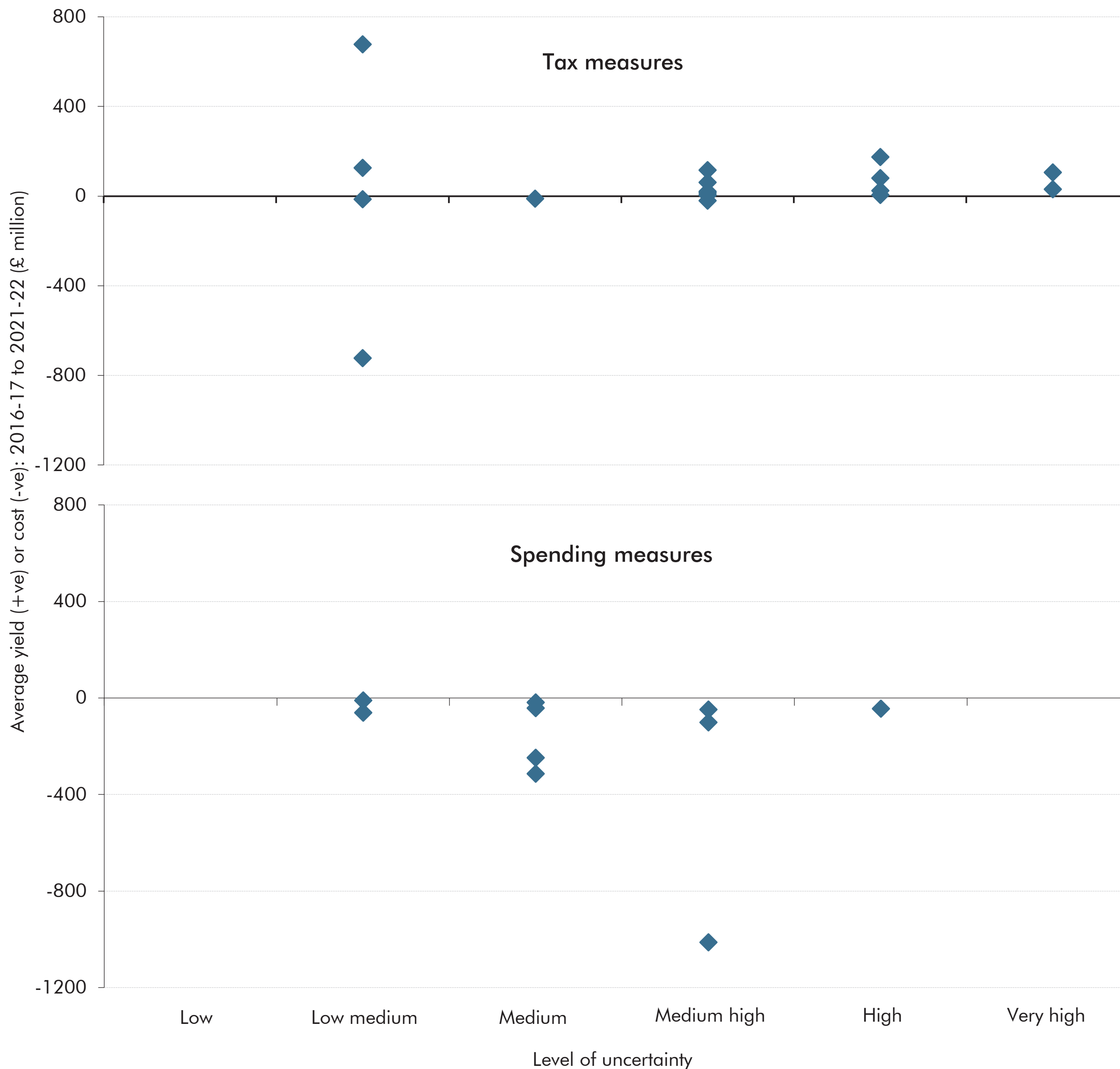
- **'employee shareholder status: abolish tax advantage for new schemes'** – this receives a 'high' uncertainty ranking. In Autumn Statement 2012, the Government announced that the first £50,000 of shares received through an employee share scheme (ESS) – which involves the employee surrendering certain employment rights – would be exempt from capital gains tax (CGT). Further announcements followed in Budget 2013 and Budget 2016. This measure removes the reliefs altogether for any shares awarded under new ESS agreements entered. The most important source of uncertainty was the behavioural effect, which was considered 'very high'. Attrition is applied to the costing to account for aggressive tax-planners finding alternative means of reducing their tax liabilities. Data are also considered a 'high' source of uncertainty as the forecast tax base from previous measures remains uncertain; and

- **'company car tax: reforms to incentivise ULEVs'** – this receives a 'high' uncertainty ranking. HMRC specifies how the taxable benefit value should be calculated for a range of different benefits-in-kind. In the case of company cars, the cash equivalent of the benefit is based on the car's list price (when new) plus any accessories times the 'appropriate percentage'. This measure changes the company car tax (CCT) appropriate percentage banding structure for ultra-low emission vehicles (ULEVs), as well as increasing CCT appropriate percentages in 2020-21 for CO_2 emission ranges over 90g/km by 1 per cent. The main uncertainty was modelling. Forecasting the tax base required several steps and relies on assumptions about the proportion of ULEVs forecast by the Department for Transport to be used as company cars.

A.13 We have judged twenty two scorecard measures to have between 'medium-low' and 'medium-high' uncertainty around the central costing, with none having 'low' uncertainty. That means that 48 per cent of the Autumn Statement scorecard measures have been placed in the medium range (43 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 often 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. Unlike many recent Budgets and Autumn Statements, in this Autumn Statement the biggest tax raising measure (insurance premium tax) is assigned a lower uncertainty rating.

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



Longer-term uncertainties

A.15 For most policy costings, the five-year scorecard period is sufficient to give a representative view of the long-term cost or yield of a policy change. Typically, that is either zero – because the policy has only a short-term impact that has passed by the end of the scorecard period – or it would be reasonable to expect the impact at the end of the forecast to rise broadly in line with nominal growth in the economy thereafter. In this Autumn Statement, the final year effects of most scorecard measures are representative of the longer-term cost or yield.

A.16 We note two measures where the scorecard costing is not representative of the longer term. In both cases, long-term effects are particularly uncertain. These are:

- **'HMRC: administration and operational measures'** – the largest revenue raising element of this package is to provide additional resources to expand HMRC's use of

accelerated payment and follower notices in the litigation of anti-avoidance cases. As with previous measures in this area, it brings forward yield that HMRC would expect to receive in future years in its absence. On this occasion, we estimate that it raises receipts from 2018-19 to 2022-23 but lowers them from then until 2025-26. It would be broadly revenue neutral overall; and

- **'employee shareholder status: abolish tax advantage for new schemes'** – when this measure was introduced in December 2012, we noted that the cost could rise significantly beyond the scorecard period. The opposite is true of cancelling it. It reduces the cost over the scorecard period by £115 million, but because the arrangements exempt the disposal of these shares from capital gains tax, and there may be a long lag between award and disposal, the yield beyond the scorecard period could rise significantly.

Small measures

A.17 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.18 A good example of a small measure announced in this Autumn Statement is '**social sector rent downrating: exemptions**'. In July 2015, the Government announced that social sector landlords would be required to cut rents by 1 per cent a year for the four years up to 2019-20. In September 2016, it was announced that almshouses, community land trusts, co-ops and refuges will be exempt from this. This costs around £10 million a year through higher spending on housing benefit associated with the rents charged by these entities. The data used are high quality and the modelling is straightforward. No behavioural response is expected. And unlike the imposition of the rent downrating policy, removing these entities from its effect is not considered to be contentious.

A.19 By definition, any costings that meet all these conditions will have a maximum uncertainty rating of 'medium'.

Evaluation of HMRC anti-avoidance measures

A.20 The Treasury Select Committee's report on Autumn Statement 2013 recommended that "*the OBR should do all it can to report on whether yields [from anti-avoidance measures] were*

attained as originally costed." We did so first in Box 4.2 of our December 2014 *EFO* and repeated the exercise in our November 2015 *EFO*, after which we published more detail in a working paper.[2] We have repeated the exercise this year, looking at more recent measures and those for which there is new information. In total, 12 measures from the last four years have been evaluated. We also asked for updates on a further three measures where there is not enough information to undertake a full evaluation at this stage. These 15 measures are reported below.

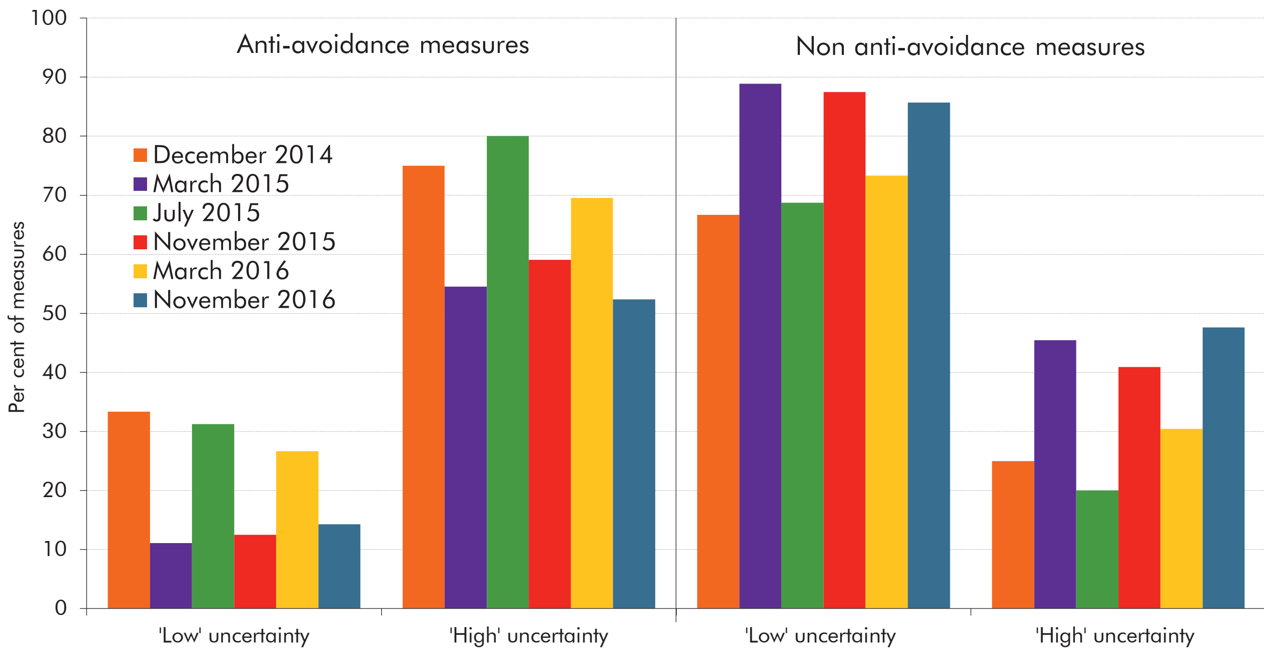
A.21 The revenue impact of anti-avoidance measures tends to be particularly uncertain as they often target a specific subset of taxpayers who are already actively changing their behaviour in response to the tax system. Typically these measures are assigned one of our higher uncertainty rankings as both data quality and behavioural response tend to be uncertain.[3] That is clear again in the uncertainty ratings assigned in this Autumn Statement.

A.22 Chart A.2 confirms that since we began assigning an uncertainty rating to every scorecard measure in December 2014, the types of measures covered by this evaluation have typically received a higher rating than other measures. The first two sets of bars show the ratings for anti-avoidance measures – more often than not these are given one of our three highest uncertainty ratings (very high, high or medium-high, grouped as 'high' for this chart). The opposite is true for other measures, displayed in the third and fourth sets of bars – typically these measures are assigned one of our three lowest ratings (low, medium-low and medium, grouped as 'low' for this chart).

A.23 Due to the difficulty and resource requirements of producing formal counterfactual evaluations, we again draw on evidence from HMRC's monitoring of receipts, operational intelligence and re-costing of previous measures for most of the evaluations.

[2] See Johal and Sousa (2016): *Working Paper No 9: Anti-avoidance costings: an evaluation*.
[3] While we are labelling this an evaluation of anti-avoidance costings, we have broadened it to cover wider HMRC operational activity. This brings into scope measures where HMRC is expecting to increase tax revenue through additional compliance resources or enforcement powers. On the welfare spending side, we have also included measures where HMRC is expecting to make savings from compliance or enforcement actions within the tax credit and child benefit systems that are administered by HMRC. We typically assign a lower uncertainty rating to these types of welfare measures as the quality of data is higher and the behavioural response is more limited.

Chart A.2: Uncertainty ratings for anti-avoidance measures

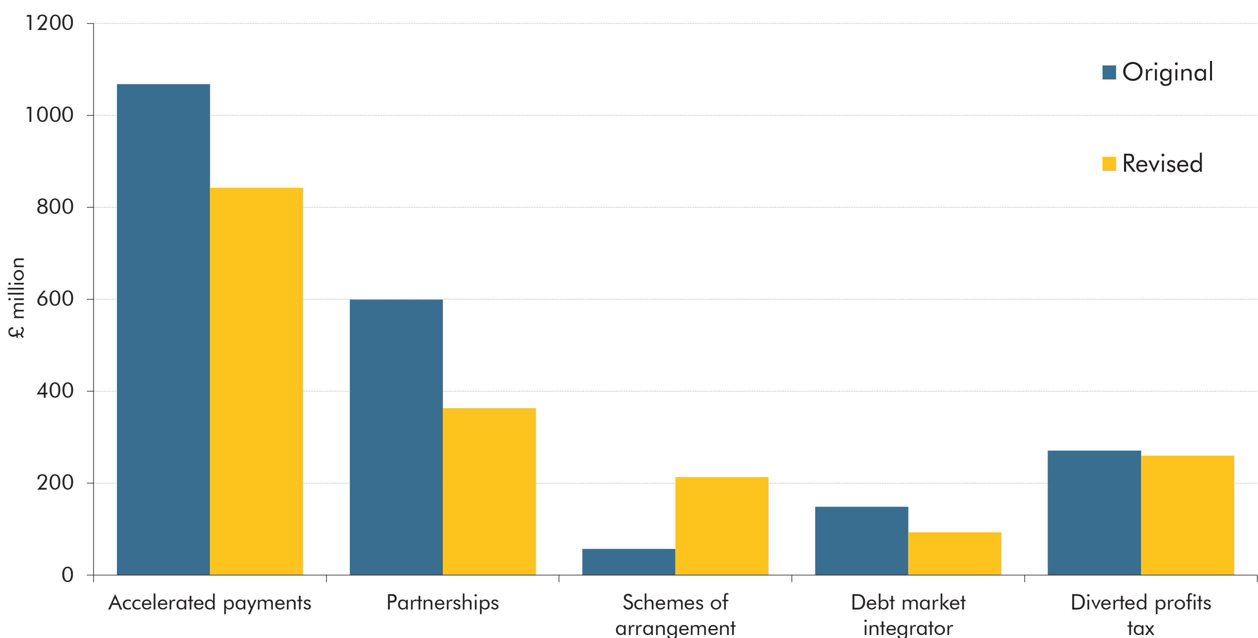


Source: OBR

Total receipts compared to original costing

A.24 Our previous evaluations showed the vast majority of measures were within £50 million either way of the original estimate. Chart A.3 shows the main findings from this evaluation, comparing average revenue raised each year between the original and revised costings.

Chart A.3: Comparison of evaluated anti-avoidance measures (average yearly yield)



Source: HMRC, OBR

A.25 For evaluation and monitoring purposes we combine five measures where the yield is generated through '**accelerated payments**' and follower notices.[4] These five measures have so far raised less than expected, and we now expect yield to be lower by an average of £0.2 billion a year. We also combine the two '**partnerships**' measures. These have also raised less than expected, and once again our latest estimate has average yearly yield £0.2 billion lower than the original estimate. Only the '**schemes of arrangement**' stamp duty measure brought in more revenue than expected, by an average of around £0.2 billion a year, and we have revised up our forecast by the same amount as a result. The '**debt market integrator**' measure is now expected to generate savings of an average £55 million a year less than the original costing. The costing for '**diverted profits tax**' is broadly unchanged.[5]

A.26 Measures that changed the most since the original costing include:

- '**accelerated payments**' – since Budget 2013, HMRC has been issuing accelerated payments (AP) notices, which bring in revenue more quickly by demanding payment upfront in avoidance cases. For the most part this is revenue that HMRC would have received in future years but which has now been brought forward, so most of the effect of these measures was due to timing. Chart A.3 shows the combined costings were expected to raise £1.1 billion a year on average from 2014-15 to 2018-19. The two largest measures date from before we formally assigned uncertainty rankings but we highlighted the high level of uncertainty around the multiple-stage costings model that was sensitive to changes in the underlying assumptions. In our November 2015 evaluation, actual AP receipts were higher than originally estimated, so we increased our near-term forecast while reducing it in later years. But information provided by HMRC for this evaluation suggests that the initial estimate of the tax under consideration, which forms the basis for the costing, was too high. This is partly due to some of the stock of cases at the time of the original costing falling out of scope for AP. HMRC have also reduced the average value of cases. It is also possible the threat of receiving an AP notice has acted as a stronger deterrent than originally thought. The combined effect reduces the expected yield of these measures by around £0.2 billion on average a year compared to the original costings;

- '**partnerships**' – in March and December 2013, the Government announced a range of legislation to counter commonly used avoidance schemes involving partnerships. The two measures were expected to yield £3.3 billion between 2014-15 and 2018-19. This was before we formally assigned uncertainty rankings but we highlighted the very high uncertainty around the costings at the time. Of particular concern were the two difficulties common to most anti-avoidance costings – determining the current level of avoidance via existing channels and the future use of alternative avoidance channels if existing ones were closed down. Following this evaluation we have lowered our

[4] The five are: 'penalties in avoidance cases' from March 2013, 'accelerated payments in follower cases' from December 2013, 'accelerated payments: extension to disclosed tax avoidance schemes and the GAAR' from March 2014, 'DOTAS regime changes' from December 2014 and 'accelerated Payments: extension' from March 2015. We excluded the sixth measure 'corporation tax: accelerated payments and group relief' which we evaluated last year and for which there is no significant change. This Autumn Statement has added another within 'HMRC: administration and operational measures'.

[5] We also evaluated two polices within the December 2013 measure 'HMRC: extending online services' but there was nothing significant to report.

estimate to £1.8 billion over the same period. This mainly reflects initial receipts being lower than we expected. The original estimate was for £1.2 billion yield by 2015-16, but the latest outturn estimate is £0.6 billion. Most of the receipts for the measure come in through self-assessment income tax, so more information will be available after the next SA payments are made in January and reported by HMRC in February. That information will remain subject to some uncertainty as it is difficult for HMRC to separate the receipts directly attributable to this measure from general returns;

- '**stamp duty on shares: schemes of arrangement**' – in December 2014 the Government announced a measure to tackle avoidance of stamp tax on shares by prohibiting the use of reduction of share capital in cancellation schemes of arrangement designed to implement takeovers of UK registered companies. These schemes of arrangement were a way of structuring a takeover so that no stamp tax would be paid. The original costing was sensitive to the number and regularity of very large takeovers, both of which are uncertain. It allowed for two behavioural effects. First, bringing forward or forestalling of some deals to avoid the legislation, which was due to take effect from March 2015. Second, allowing for alternative avoidance via an attrition assumption. At the time we gave this measure a 'medium-high' uncertainty rating and emphasised that the number of takeovers was the most uncertain element. Since this measure has come into effect, more takeovers than anticipated, including a number of large ones, have paid stamp duty, increasing the estimated yield. This also suggests the behavioural assumptions may have been overstated, although that cannot be discerned with confidence. The original estimate was to raise £285 million in total from 2015-16 to 2019-20, with £130 million in the first two years. In fact, it has already raised £600 million in the first two years and we have revised up our forecast for future receipts from this measure; and

- '**HMRC's use of the debt market integrator**' – this was announced in December 2014 as part of 'HMRC: operational measures' and was an extension to HMRC's debt collection agency programme, using the Cabinet Office-led debt market integrator (DMI) to market the recovery of debt owed to government. This was done by placing packages of debt across income tax, NICs, onshore corporation tax and VAT with the DMI. It was originally expected to raise £0.7 billion from 2014-15 to 2018-19. HMRC has informed us that performance for 2015-16 was close to expectations but that at the current level of funding it would be unable to meet all the planned placements. Yield for 2016-17 and 2017-18 has been lowered by a third as a result, so total yield across the original scorecard period is £0.3 billion lower than originally estimated.

A.27 We approached HMRC about a number of other measures and were told there was insufficient information to evaluate them at this time. These include the March 2013 measure on tackling '**offshore employment intermediaries**', its December 2013 counterpart targeting '**onshore employment intermediaries**' and the December 2014 measure '**self-incorporation: intangible assets**'. We will revisit these in next year's evaluation.

A.28 The Government has announced further anti-avoidance and compliance measures in recent Budgets and Autumn Statements. For many of these policies, the yield is only expected in the

forecast period and we will evaluate them once they have come into effect. For example, much of the yield from the July 2015 evasion package comes in 2017-18. HMRC has provided us with updated information about the delivery of compliance measures and at this stage they remain broadly on track. In particular they now maintain a record of planned and actual recruitment for policy measures which they were able to share with us.

Update on previous measures

A.29 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.

Policy reversals

A.30 Our forecast reflects four previously announced policies that the Government has cancelled, three of which it has shown on its scorecard and one that we have recorded as a non-scorecard policy measure:

- '**personal independent payment: aids and appliances**' – this measure, announced in the March Budget, would have cut disability benefits spending via a reduction in the entitlement points that would be awarded in PIP for cases involving the use of certain aids and appliances. Shortly after the Budget the Government announced that it would not be implemented. That decision costs £6.1 billion in total across the scorecard period (see Table A.2);

- '**pay to stay**' – this was announced in July 2015 and would have required social sector landlords – both local authorities and housing associations – to charge higher rents to households with income above a defined threshold. In March the Government announced that the policy would be less stringent by making it voluntary for housing associations and by introducing a taper to reduce how sharply rents would increase for those with income that exceeded the threshold. In this Autumn Statement the Government has abandoned the policy entirely. That costs £0.6 billion over the scorecard period (see Table A.2);

- '**employee shareholder status**' – in December 2012 the Government announced that the first £50,000 worth of shares received under an employee shareholder status arrangement – which involves the employee surrendering certain employment rights – would be exempt from capital gains tax (CGT) and in March 2013 extended this to exempt the first £2,000 of shares from income tax and national insurance contributions. In March 2016 the Government introduced a lifetime limit of £100,000 for the CGT element. The latest HMRC statistics show that take-up in 2013-14, the first seven months of the scheme, was just 230. That was well below the original estimate of 11,000 (which included 5,000 expected to go on to benefit from the CGT exemption). We have since lowered our steady state take-up assumption from 65,000 (including 30,000 benefiting from the CGT exemption) to 20,000, though this remains

highly uncertain. Originally we expected these measures to cost £125 million in 2017-18, but that has been revised down to £20 million, though this reflects weaker equity prices as well as take-up. In this Autumn Statement the Government has announced it is cancelling the tax exemptions from new shares awarded under employee shareholders arrangements; and

- '**annuities: secondary market**' – this measure was announced in March 2015, but has now been cancelled. The Government has chosen not to put this measure on its scorecard. We discussed it in more detail in paragraph A.5.

Policy delays

A.31 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 been subsequently delayed. These include:

- '**universal credit**' – for the fourth autumn forecast in succession we have needed to factor in the effects of the Government pushing back part or all of the UC rollout. This time it has pushed the start of the scaling up of natural migrations back by eight months to October 2017 and the managed migration process by another year, now due to end in March 2022. The succession of delays is shown in Chart 4.7. We first introduced UC into the forecast in March 2013. Over the three and a half years since then the rollout has been receded by around four years. Some of the knock-on effects of this delay include adjusting cuts to support for families making a new claim and delaying further cuts for families with more than two children and delaying the transfer of housing benefit paid to pensioners into a new housing credit in pension credit. We have decided to retain our assumption of a further 6-month contingency on the managed migration process, meaning that in our forecast it ends in October 2022. The effect of all these delays is uneven across years because it pushes back both savings and costs, the net effect of which differs from year to year. But overall they reduce marginal UC savings; and

- '**Royal Bank of Scotland (RBS) share sales**' – our March forecast included £21.5 billion of share sales between 2016-17 and 2020-21. The Chancellor has been reported as saying that further sales were *"not practical at the moment"* and that *"the right time to look at this again would be when those issues are set"*. On this basis, we have not included any RBS share sales in this forecast.

A.32 We have also received updates on a number of other policies including:

- '**making tax digital**' – HMRC has reported on progress in delivering this November 2015 measure. From the information available, it is broadly on track although it is still at an early stage. There was a four month referendum-related delay in HMRC issuing a consultation, but we have been reassured that this was allowed for in the contingency built into the timetable. Before certifying any measures of this nature, we

routinely ask whether such contingencies have been included given past experience of delivery hurdles delaying their effects on the public finances. If the consultation leads to any changes in the policy, we will consider them in our next forecast;

- '**help to buy: ISA**' – this Budget 2015 measure allows first-time buyers to benefit from a 25 per cent government top-up when purchasing a first home, with restrictions on the value of the home and the amount that can be saved. We originally expected this to cost £2.1 billion from 2016-17 to 2019-20. Take-up has been lower than expected, around half that assumed in the original costing, with deposit levels also slightly lower than the allowable limits under the scheme. This reduces the expected cost to £1.2 billion from 2016-17 to 2019-20. Uncertainty remains around these assumptions;

- '**corporation tax: bringing forward payments for large groups**' – in the July 2015 Budget, the Government decided to bring the corporation tax (CT) payment date for large non-oil companies forward by four months from April 2017. In Budget 2016, it delayed the start of the policy to April 2019. With CT scored on a cash basis, this boosted receipts by £5.6 billion in 2019-20 and by £3.2 billion in 2020-21. In effect, the timing measure would have delivered a one-off boost to receipts on a cash basis – with the biggest boost in the surplus target year that applied in that Budget – without any change in underlying liabilities. On 21 October, the ONS announced that it would implement a new accruals methodology for CT early in 2017. CT is currently scored on a cash basis (when it is received by HMRC). The new approach would time-adjust cash receipts so that they more closely reflect when the economic activity that created the CT liabilities took place. Because of this, we have removed the effect of this measure on public sector net borrowing. As it will still affect the timing of cash payments, it continues to affect our forecasts for the public sector net cash requirement and public sector net debt;

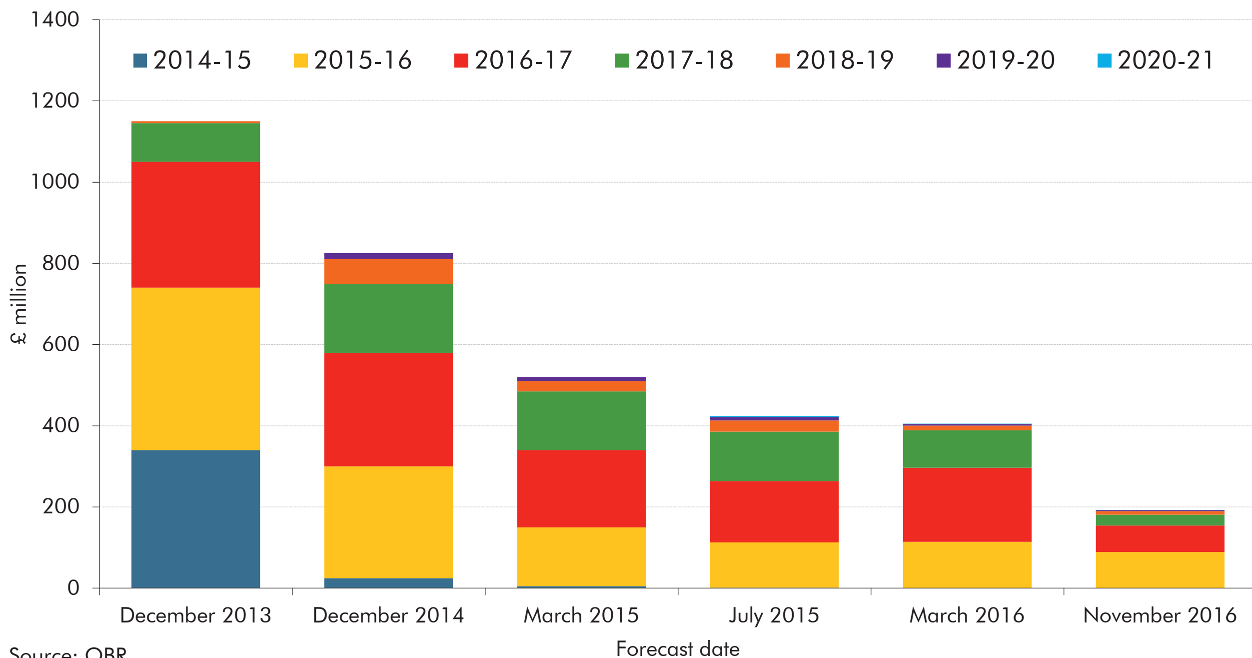
- '**stamp duty land tax: higher rates on additional properties**' – in November 2015, the UK Government pre-announced a 3 per cent SDLT surcharge on purchases of buy-to-let properties and second homes. It was due to raise £3.8 billion from 2016-17 to 2020-21. We gave this measure a 'high' uncertainty rating due to low quality data and the potential for a large behavioural effect. The measure came into effect on 1 April 2016, providing a four month window from announcement for buyers to bring forward transactions and avoid the surcharge. We did consider this behaviour when scrutinising the original costing but it seems likely we underestimated its size.[6] Despite this, receipts so far have been much higher than expected and we have increased our forecast by £3.1 billion (76 per cent). However, the measure allows taxpayers to claim a refund if they sell their main residence within three years and there remains uncertainty over the eventual size of these; and

  '**error and fraud additional capacity**' – in Autumn Statement 2013, the Coalition announced a tax credits policy that it called 'Error and fraud: additional capacity'

[6] More detail can be found in Mathews (2016): *Working Paper No 10: Forestalling ahead of property tax changes*.

(EFAC).[7] It involved using an external provider – the contract went to Concentrix – to provide additional resources to identify tax credits compliance interventions and was expected to save £1.1 billion over the five years to 2018-19. Since our March forecast, the contract with Concentrix has been terminated early and HMRC has temporarily redeployed over 600 of its own staff to complete the project. Our latest forecast has been adjusted to reflect the very high proportion of cases that are being overturned at the mandatory reconsideration stage and the effect on HMRC's business-as-usual activity caused by redeploying staff from other work. We now expect EFAC to have saved £0.2 billion by 2019-20 – £0.9 billion or around 80 per cent less and also later than originally assumed. As Chart A.4 shows, the overall shortfall reflects a succession of downward revisions since EFAC was announced. The other big changes include those in December 2014 (reflecting a delayed start date and lower productivity) and in March 2015 (reflecting further productivity falls).

Chart A.4: Savings from 'error and fraud: additional capacity'



Source: OBR

Departmental spending

A.33 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.

A.34 In this Autumn Statement the Government has announced a significant increase in departmental capital spending, alongside other smaller changes in current spending. Past

[7] It was contained within the wider measure 'tax credits: improving collection and administration'.

experience suggests that planned increases in capital spending will not translate fully into actual spending in the year planned, so we have assumed that 20 per cent of each year's planned spending will actually be spent a year later.

A.35 For a number of recent forecasts we have asked the Treasury to provide assurance on the funding of a number of HMRC and DWP operational measures. For this forecast, we confirmed that these had been fully funded. And for this Autumn Statement, the Treasury has provided £160 million of funding to HMRC as part of the package 'HMRC: administration and operational measures'.

Indirect effects on the economy

A.36 This Autumn Statement contains a number of policy changes that we have judged to be sufficiently large to justify adjustments to our central economic forecast. These include:

- **fiscal policy** – the Government has loosened fiscal policy between 2017-18 and 2020-21, largely reflecting increases in departmental current and capital spending. This has small effects on the profile of real GDP growth, adding 0.1 percentage points in 2017-18 and subtracting less than 0.1 percentage points a year thereafter;
- **housebuilding and residential investment** – there are a number of policies in the Autumn Statement that are likely affect housebuilding by housing associations (some positively and some negatively) and on surplus public sector land (bringing some activity forward into our forecast horizon). The overall effect is small, reducing residential investment growth by an average of 0.2 percentage points a year; and
- **inflation** – the Government has announced a number of policies that we expect to affect inflation. The latest freeze in fuel duty takes effect in April 2017, while the latest increase in insurance premium tax from 10 to 12 per cent takes effect in June 2017. These have small and partly offsetting effects, reducing CPI inflation by less than 0.1 percentage points in 2017-18.