HM Treasury

# Budget 2021:

## policy costings

March 2021

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# Introduction

This document sets out the assumptions and methodologies underlying costings for tax and annually managed expenditure (AME) policy decisions announced since Spending Review 2020, where those policies have a fiscally significant impact on the public finances. These costings are all submitted to the independent Office for Budget Responsibility (OBR) for their certification. This publication is part of the government's wider commitment to increased transparency.

Chapter 2 presents detailed information on the main data and assumptions underpinning the costing of policies in the Budget. Each note sets out a description of the measure, the base, the methodology for the costing (including relevant adjustments for behavioural responses) and highlights main areas of additional uncertainty, beyond those inherent in the OBR's forecast. All costings are presented on a National Accounts basis.

Annex A sets out the indexation assumptions included in the public finances forecast baseline, including all pre-announcements. The OBR sets out the approach they have taken to scrutiny and certification of the costings, and highlights areas of particular uncertainty, in Annex A of the Economic and Fiscal Outlook.

# Chapter 2
# Policy costings

The following are included in this chapter:

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# Coronavirus Job Retention Scheme: extension to September 2021

## Measure description

The Coronavirus Job Retention Scheme (CJRS) aims to mitigate the impact of coronavirus on the economy by encouraging employers that cannot maintain their workforce because their operations have been affected by coronavirus (COVID-19) to retain their employees. The CJRS, which was due to end in April 2021, will be extended to the end of September 2021.

The scheme will provide the same level of support until June 2021. From July, the government will introduce an employer contribution towards the cost of unworked hours of 10% in July, 20% in August and 20% in September. Employees will continue to receive 80% of their current salary, capped at £2,500 per month, for hours not worked.

## The cost base

The number of employments furloughed per month is projected in line with the OBR's economic forecast. The projection reflects modelled changes in take-up caused by the reintroduction of employer contributions.

Outturn CJRS claims data is used to estimate the average monthly claim amounts for furloughed employments. Average claims are adjusted in line with a projection of the proportion of employees furloughed flexibly (i.e. furloughed for less than 100% of usual hours) in the months covered by the extension.

## Costing

The costing is estimated by taking the product of the estimated number of employments furloughed per month and average monthly claim. Adjustments are made for estimated tax and National Insurance receipts on salary payments supported by the CJRS and to remove payments to the public sector.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -6,945 | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the number of employments furloughed per month, average claim amount and income tax and National Insurance payments on salary payments supported by the CJRS.

# Self-Employment Income Support Scheme (SEISS): fourth and fifth grants

## Measure description

This scheme allows eligible self-employed (including those in partnerships) to claim two further taxable grants. The fourth grant will cover February to April 2021 and will be paid out between late April and May 2021. The fifth grant will be available to claim from July until September.

The fourth grant is calculated at 80% of three months of their average trading and partnership profits for the last four years and capped at £7,500.

The fifth grant will require a Financial Impact Declaration that determines whether applicants are eligible for either a higher or lower grant amount based on how much their turnover has reduced in the year April 2020 to April 2021.

Subject to the Financial Impact Declaration, the grant is calculated either at 80% of three months of the claimant's average trading or partnership profits for the last four years, capped at £7,500, or at 30% and capped at £2,850.

## The cost base

The cost base is up to the total population who have income or losses from self-employment, including those who have trading profits and/or income from partnerships.

The cost base has been calculated using available outturn Self-Assessment data.

## Costing

The costing has been produced by estimating eligibility and take-up relative to the cost base. This has been informed by outturn data on take-up for the first three SEISS grants.

Impacts on Income Tax and self-employed National Insurance Contributions are accounted for in the costing.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -55 | -12,760 | +1,650 | 0 | 0 | 0 |

## Areas of uncertainty

The main source of uncertainty relates to take-up and the estimates of change in turnover of the eligible population over the relevant period.

# Business rates: three months 100% holiday, nine months 66% relief with cap

## Measure description

This measure grants a 100% business rates discount to businesses occupying eligible retail, hospitality and leisure properties and nurseries in England for 3 months from 1 April 2021. For the remainder of the financial year, these properties will receive a 66% discount with a cap of £2 million per business for those that were required to close as at 5 January 2021 and a cap of £105,000 per business for those that were not required to close. Businesses can choose to opt out of the relief.

## The tax base

The tax base consists of the total rateable value of all retail, hospitality and leisure properties and nurseries in England, multiplied by the 2021-22 business rates multipliers.

## Costing

The static costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. The static cost is adjusted to reflect behavioural responses and the fact that business rates are deductible for Corporation Tax for companies and Income Tax for the self-employed.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | +135 | -6835 | +135 | -35 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# VAT: extension to reduced rate for hospitality, accommodation and attractions (5% to 30 September 2021 then 12.5% to 31 March)

## Measure description

The measure extends the temporary reduced rate of VAT on supplies of accommodation, food and beverage services excluding alcohol, and specified attractions. The extension of the 5% rate is for 6 months from 1 April 2021 to 30 September 2021; this is followed by a 12.5% rate until 31 March 2022.

## The tax base

The tax base is estimated from VAT return data and the ONS Annual Business Survey (ABS) for the relevant sectors. This historical tax base is then adjusted for the estimated impacts of COVID-19 on these sectors during the period of the measure.

## Costing

The static costing is computed separately for the two halves of the year; for each half year, the static cost is the tax base for the half multiplied by the change in the tax rate for the half.

The costing accounts for the following behavioural responses: variable pass-through of the rate reduction to customers, and estimated price elasticity of demand.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -4,720 | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the extent to which the normal level of supply will be reduced in the next financial year.

# VAT: extend the window for starting deferred payments through the VAT New Payment Scheme by up to three months

## Measure description

The VAT New Payment Scheme is open to all taxpayers who have deferred VAT payments normally paid with VAT returns due between 20 March and 30 June 2020. It allows for the deferred VAT payments to be paid in up to 11 equal instalments with the first payment made at the date the customer signs up to the scheme. This measure extends the deadline for signing up to the scheme by three months, to 30 June 2021.The final date by which a payment within the New Payment Scheme can be made has not been changed and remains as 31 January 2022.

## The tax base

The tax base consists of the relevant VAT that has been deferred.

## Costing

The costing is produced by estimating the change in non-recoveries of deferred VAT as a result of the change in sign-up dates for New Payment Scheme. It does not include the effect on the timing of cash receipts, as this does not affect Public Sector Net Borrowing.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -80 | 0 | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the proportion of debt that will be paid on time, enter payment arrangements or become debt.

# Stamp Duty Land Tax: maintain nil-rate band at £500k until 30 June 2021, £250k until 30 September 2021

## Measure description

On 8 July 2020, the SDLT nil rate band threshold was increased to £500,000 until 31 March 2021. This measure maintains the nil rate band threshold at £500,000 for three months until 30 June 2021. It will then be held at £250,000 until 30 September 2021, before returning to its permanent level of £125,000 from 1 October 2021.

## The tax base

The tax base is derived using the SDLT microsimulation model with a base year period of 2019-20. The transactions are then grown in line with the latest OBR determinants.

## Costing

The static costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above.

The costing accounts for a behavioural response whereby there is a change in transactions, house prices, and forestalling.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -255 | -1,350 | Neg | Neg | -5 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

# Fuel Duty: one year freeze in 2021-22

## Measure description

This measure freezes rates of fuel duty for 2021-22.

## The tax base

The tax base is every litre of taxable fuel that is made available for use in the UK. The projected volumes of taxable fuel are taken directly from the HMRC fuel duty forecasting model.

## Costing

The costing is calculated by taking the forecast baseline and applying the difference in the forecast and policy duty rates.

Behavioural responses are included to account for an increase in consumption in response to lower fuel price increases.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -795 | -885 | -910 | -925 | -945 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

# Alcohol Duty: one year in 2021-22

## Measure description

This measure will freeze beer, wine, spirit and cider duties in 2021-22 effective from 1st February 2021.

## The tax base

The tax base for this measure is alcohol clearances. Alcohol duty is payable on an alcohol product at the point at which it is released for consumption onto the UK market, also referred to as alcohol clearance. Annual clearances are estimated using the OBR alcohol duty receipts forecast.

## Costing

The static costing is estimated by applying the new duty rates to the tax base described above.

A behavioural adjustment is made to take into account changes in the consumption of alcohol in response to a price change.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -45 | -315 | -320 | -325 | -340 | -350 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

# Universal Credit: maintain £20 per week increase to standard allowance for six months

## Measure description

The government temporarily increased the Universal Credit standard allowance by the equivalent of £20 per week for the 2020-21 financial year. This measure extends this uplift by a further 6 months.

## The cost base

The Universal Credit caseload and average awards are estimated using the DWP's Policy Simulation Model, Integrated Forecasting Model 2, and Average Elements Model. The models are aligned to the caseload forecast and include those cases made eligible for a Universal Credit award as a result of the increase.

## Costing

The costing is the difference between the pre-measure expenditure and the post-measure expenditure.

No behavioural effects have been included, beyond those already present in the outturn data captured by the models.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -2,240 | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the forecast size of the Universal Credit caseload.

# Universal Credit: three month delay to Minimum Income Floor reintroduction

## Measure description

The Minimum Income Floor (MIF) is an assumed minimum level of earnings for self-employed Universal Credit claimants, and is set at the equivalent of the hours a claimant would be expected to work at the National Living Wage for their age group (typically 35 hours per week). If a claimant's monthly earnings are below the level of the MIF, their monthly Universal Credit award will be calculated using the MIF. If their earnings are above the MIF, their award will be calculated using their actual earnings.

The government has temporarily suspended the MIF, meaning claimants' actual earnings are used to calculate their awards. This measure continues this suspension until the end of July 2021, and this costing is for the suspension between the start of May and the end of July 2021. The suspension from the start of April 2020 to the end of April 2021 was costed at Spending Review 2020.

## The cost base

The DWP's Policy Simulation Model is used to estimate average Universal Credit awards, and the Integrated Forecasting Model 2 and administrative data are used to estimate the caseload.

## Costing

The costing is produced by comparing the pre- and post-measure regimes.
There is a cost beyond 2021-22 as new claimants benefit from a 12-month grace period before the MIF is applied, and this grace period has been extended alongside the MIF suspension.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -25 | -60 | -5 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the forecast caseload of self-employed Universal Credit claimants, and the distribution of self-employment earnings over time.

# Universal Credit: maintain surplus earnings de minimis at £2,500 in 2021-22

## Measure description

In Universal Credit, a claimant's 'surplus earnings' (earnings in excess of the level of earnings that would result in a Universal Credit award of £0) in a given month can be carried forward, reducing the level of their award for up to six further months. Currently, the first £2,500 of surplus earnings per month cannot be carried forward – this is called the de minimis threshold.

This measure will keep the de minimis threshold in Universal Credit at £2,500 for 2021-22 rather than lowering the threshold to £300 as planned.
This measure is effective from 1 April 2021 until 31 March 2022.

## The cost base

The cost base is estimated using the DWP's Policy Simulation Model which is aligned to the Integrated Forecasting Model 2 used to forecast Universal Credit AME.

## Costing

The costing is produced by comparing the cost base described above to a pre-measure forecast baseline.

No behavioural effects have been estimated in this costing as possible effects are judged to be negligible.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -110 | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the earning patterns of claimants and the number of claimants who may receive two month's pay in one assessment period.

# Shared Accommodation Rate (SAR): accelerate introduction of further exemptions

## Measure description

From June 2021, those aged under 25 who are care leavers or who have spent at least three months in a homeless hostel under the age of 25 will be exempt from the SAR in Universal Credit and Housing Benefit,  which is the lower Local Housing Allowance (LHA) rate for a room in a shared house.. They will instead be entitled to the higher one-bedroom rate. These measures were previously due to be implemented from October 2023.

## The cost base

The cost is based on DWP benefit expenditure forecasts and economic determinants as forecasted by OBR

## Costing

The costing is calculated by applying the new exemption rates to the cost base described above. This is in addition to the costs scored at Budget 2020, when it was planned to come into force in October 2023.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -10 | -10 | -5 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the caseload for each exemption.

# Statutory Sick Pay Rebate Scheme: extension

## Measure description

Employers with fewer than 250 employees will continue to be able to reclaim up to two weeks of eligible Statutory Sick Pay (SSP) costs per employee from the government. Eligible sickness absence includes time taken off due to being ill with COVID-19 or having to self-isolate or shield because of it. This scheme is a temporary COVID-19 measure intended to support employers whilst levels of sickness absence are high.

## The cost base

The cost base is eligible claims for the Statutory Sick Pay Rebate Scheme.

## Costing

This costing covers costs arising from the rebate in 2021-22. It uses 2020-21 outturn to project costs in 2021-22. This costing assumes that the scheme will continue until the end of September 2021, though a final decision on the timing of the scheme's closure (which could be before or after September) will be made in due course.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -35 | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to employer take-up of the rebate.

# Capital allowances: 130% Super Deduction for main rate assets and 50% First Year Allowance for special rate assets for two years

## Measure description

This measure will allow companies to claim 130% in-year relief for main rate capital expenditure on plant and machinery and 50% in-year relief for special rate capital expenditure, excluding operating leases, second-hand assets and cars from 1 April 2021 to 31 March 2023.

## The tax base

The tax base is derived using Corporation Tax returns for the amount of qualifying main rate and special rate expenditure claimed by companies. The data used is 2018-19 outturn data, which is the latest currently available. This is then projected forward in line with OBR projections for capital expenditure.

## Costing

The main behavioural response included relates to companies increasing their levels of investment as a result of the new rates of relief. An allowance has also been made for avoidance activity or boundary pushing which may occur.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -1,735 | -12,255 | -12,695 | -2,395 | +2,090 | +2,780 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

# Loss Carry Back: extend to three years

## Measure description

This measure will extend the period that company, partnerships and self-employed trading losses can be carried back by a further two years. The total amount that can be carried back per taxpayer in each additional year is £2,000,000. Groups will also be subject to a cap of £2,000,000.

The policy will be implemented from April 2021 and will apply to trading losses which occur in accounting periods which fall in the 2020-21 and 2021-22 tax years.

## The tax base

The tax base is formed of the Corporation tax and Income tax liabilities of companies and individuals in 2019-20, 2018-19 and 2017-18. Companies and individuals must not have ceased trading, and individuals must not be in in the first three years of trading.

## Costing

The costing estimates the value of claims for the extra 2 years of carry back, based an estimate of the value of losses in the 2020-21 and 2021-22 tax years.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -840 | -205 | +580 | +325 | +160 | +80 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

# Corporation Tax: 19% rate for profits up to £50,000, tapering to main rate of 25% for profits over £250,000, from April 2023

## Measure description

This measure introduces a Small Profits Rate (SPR) of Corporation Tax (CT) at 19% for companies with annual profits below £50,000 and a main rate of 25% for all other companies. Marginal relief is available for companies with annual profits between £50,000 and £250,000, such that they pay CT at an overall rate between 19 per cent and 25 per cent. It will be implemented from April 2023.

## The tax base

The tax base is an estimate of UK company profits taken from the OBR's Onshore CT forecast. The baseline for the forecast is calculated using the latest tax receipts data and is then projected in line with relevant OBR determinants.

## Costing

The static costing is estimated by applying the pre- and post-measure CT rates to the tax base described above, with marginal relief calculations factored into the average post-measure CT rate.

The costing accounts for behavioural responses, including on tax-motivated incorporation and profit shifting.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -5 | +20 | +2,390 | +11,900 | +16,250 | +17,200 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural responses.

# Income Tax: maintain personal allowance and higher rate threshold at 2021-22 levels up to and including 2025-26

## Measure description

This measure maintains the Income Tax Personal Allowance (PA) and Basic Rate Limit (BRL) at 2021-22 levels from 2022-23 to 2025-26.

As the Higher Rate Threshold (HRT) is the sum of the PA and BRL, and the National Insurance Contributions Upper Earning Limit (UEL) and Upper Profits Limit (UPL) are aligned to the HRT, this measure also freezes the UEL and UPL for the same period.

## The tax base

The tax base is estimated via the HMRC Personal Tax Model using Survey of Personal Incomes data for 2017-18, projected using OBR economic determinants.

## Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. An adjustment was made to take account of the behavioural response.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | Neg | +1,555 | +3,655 | +5,790 | +8,180 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

# VAT: maintain registration threshold at £85,000 until 2023-24

## Measure description

This measure maintains the VAT registration threshold at £85,000 in 2022-23 and 2023-24.

## The tax base

The tax base is the taxable outputs, less inputs, of firms that are required by the maintaining of the VAT registration threshold to register for VAT, that would not otherwise have been registered.

## Costing

The static costing is estimated by calculating the average amount of tax each affected trader will yield for the Exchequer, which can be multiplied by the number of affected traders to come to an estimate for the additional revenue from the measure.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +55 | +125 | +135 | +165 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# Inheritance Tax: maintain thresholds at 2020-21 levels up to and including 2025-26

## Measure description

This measure maintains the Nil-Rate Band and Residence Nil-Rate Band thresholds at £325,000 and £175,000 respectively from 2021-22 up to and including 2025-26. It also maintains the Residence Nil-Rate Band taper at £2 million.

## The tax base

The tax base is made up of estates liable to pay Inheritance Tax.

## Costing

The difference between the baseline Inheritance Tax forecast and the forecast with these changes, using the tax base above, gives the estimated static yield of the threshold changes.

The costing accounts for behavioural effects whereby some estates respond to the change in thresholds relative to the pre-measures baseline.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +15 | +70 | +165 | +290 | +445 |

## Areas of uncertainty

The main uncertainty in this costing relates to the size of the tax base.

# Pensions Lifetime Allowance: maintain at £1,073,100 up to and including 2025-26

## Measure description

This measure maintains the pension lifetime allowance (LTA) at £1,073,100 from 2021-22 to 2025-26.

## The tax base

The tax base consists of the pension wealth of individuals who are estimated to have pension wealth above the LTA when they retire. This is estimated using the ONS Wealth and Assets Survey.

## Costing

The static costing represents yield from the LTA tax charge and is calculated by applying the weighted average tax rate to the tax base.

The costing accounts for a behavioural effect whereby some taxpayers will respond by altering their pension contributions.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -10 | +80 | +150 | +215 | +255 | +300 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

# Capital Gains Tax: maintain the Annual Exempt Amount at £12,300 up to and including 2025-26

## Measure description

Customers disposing of assets and realising gains liable to CGT, have an Annual Exempt Amount (AEA) of gains on which CGT is not charged.

This measure maintains the AEA at £12,300 for individuals, and £6,150 for trusts respectively from 2020-21 up to and including 2025-26 with effect from April 2021.

## The tax base

The tax base is estimated using HMRC administrative CGT data including self-assessment returns and data from the ONS Wealth and Assets survey.

## Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above. An adjustment was made to take account of the behavioural response.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | Neg | +5 | +10 | +20 | +30 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

# Corporation Tax: exemption for Northern Ireland Housing Executive

## Measure description

The measure provides an exemption from Corporation Tax (CT) for Northern Ireland Housing Executive (NIHE), the Northern Ireland body which provides state-funded housing.

The measure will have retrospective effect from 1 April 2020.

## The tax base

The tax base consists of the Corporation Tax liabilities of NIHE as published in their publicly-reported accounts, projected forward in line with their historic trend.

## Costing

The static costing is simply equal to the tax base estimates described above. There are no behavioural effects that might impact the costing.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -20 | -10 | -10 | -10 | -10 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# Interest and Royalties EU Directive: repeal

## Measure description

This measure repeals legislation that gave effect to the EU Interest and Royalties Directive (IRD) in UK law, from 1 June 2021. The measure will ensure that companies resident in EU member states will cease to benefit from UK withholding tax (WHT) exemptions on intra-group interest and royalties payments, bringing their treatment in line with companies resident in the rest of the world.

## The tax base

The tax base is the interest and royalties payments made to overseas EU entities which will now be subject to WHT.

## Costing

The static costing is estimated by applying the WHT (adjusted for limitations imposed by existing double taxation agreements) to the tax base described above.

The costing takes account of the potential behavioural responses of groups to this measure.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +10 | +10 | +10 | +5 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# Red Diesel: exemptions

## Measure description

Budget 2020 announced that the government will remove the entitlement to use red diesel and rebated biofuels from April 2022, except for agriculture (as well as horticulture, fish farming and forestry), rail vehicles and non-commercial heating.

Following consultation, this measure confirms further sectors that will retain entitlement to use red diesel beyond April 2022: those using red diesel to power vessels for commercial purposes, including fishing and water freight; travelling funfairs and circuses; amateur sports clubs including golf courses; and for non-commercial power generation.

## The tax base

The tax base for this policy is every litre of gas oil (red diesel) and biofuels presently taxed at the red diesel rate (which will move to the white diesel rate in 2022-23) for the relevant sectors.

## Costing

The static cost of the change to fuel duty receipts is calculated by taking the total forecast tax base from the exempted sectors and applying the difference in the forecast red diesel rate and the forecast unrelieved diesel rate from 22/23 onwards. The costing considers the VAT revenue impacts of fuel users switching between 5% and 20% VAT, and vice versa.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | -80 | -85 | -100 | -110 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# Vehicle Excise Duty: freeze for HGVs in 2021-22

## Measure description

This measure freezes heavy goods vehicle (HGV) Vehicle Excise Duty (VED) for 2021-22 at 2020-21 levels. This measure will be effective from 1 April 2021.

## The tax base

The tax base for this policy is the stock of vehicles liable for HGV VED and is estimated using the latest stock position from the OBR certified VED forecasting and costing model.

## Costing

The costing is calculated by multiplying the baseline stock forecast by the policy rates and then subtracting the baseline revenue.

The behavioural impact for this measure is assumed to be negligible.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -5 | -5 | -5 | -5 | -5 |

## Areas of uncertainty

The main area of uncertainty in this costing relates to the size of the tax base.

# HGV Road User Levy: suspend for a further 12 months from August 2021 and freeze rates

## Measure description

This measure suspends the HGV Road User Levy for 12 months from 1 August 2021 to 31 July 2022 and applies to registered keepers of HGVs, registered in the UK, and drivers and owners/operators of HGVs from outside the UK accessing the UK road network.

## The tax base

The UK tax base for the policy is the stock of UK vehicles liable for the HGV Road User Levy, grown in line with OBR forecast determinants.

The tax base for non-UK registered HGVs is based on the Levy payments made by visiting HGVs according to data provided by the Driver and Vehicle Licensing Agency, grown in line with OBR forecast determinants.

## Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above.

The behavioural impact for this measure is assumed to be negligible.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -140 | -75 | -5 | -5 | -5 |

## Areas of uncertainty

The main uncertainties in this costing relate to size and growth of the tax base.

# Carbon Price Support (CPS) rate: maintain in 2022-23

## Measure description

The Carbon Price Support (CPS) rates of the Climate Change Levy (CCL) act as a 'top up' to the UK Emissions Trading System (ETS) carbon price for power generators.

This measure will maintain CPS rates at £18 per tonne of $CO_2$ in 2022-23.

## The tax base

The tax base is made up of fossil fuel usage of the majority of power producers in Great Britain.

The Department for Business, Energy and Industrial Strategy provides the estimated tax base, produced using the Dynamic Dispatch Model.

## Costing

The static costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above.

The behavioural response is estimated to be negligible.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | -5 | -10 | -10 | -5 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# Aggregates Levy: one year freeze in 2021-22

## Measure description

This measure freezes the Aggregates Levy rate for 2021-22 at £2 per tonne. It takes effect from 1 April 2021.

## The tax base

The tax base is the tonnage of rock, sand and gravel commercially exploited in the UK. The tax base is estimated using the forecast for taxable aggregates output. This forecast is dependent on the lagged duty rate, seasonal variation and a time trend.

## Costing

The costing is estimated by applying the pre- and post-measure tax rates to the tax base described above. The behavioural impact is negligible.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -10 | -15 | -15 | -15 | -15 |

## Areas of uncertainty

The main area of uncertainty in this costing relates to the size of the tax base.

# Interest harmonisation and tax penalty reform

## Measure description

The measure reforms the penalty regime for Value Added Tax (VAT) and Income Tax Self Assessment (ITSA). The new late submission regime will be points-based, and a financial penalty will only be issued when the relevant threshold is reached. The new late payment regime will introduce penalties proportionate to the amount of tax owed and how late payment is. The government will introduce a new approach to interest charges and repayment interest to align VAT with other tax regimes.

This measure will be effective for VAT taxpayers, from periods starting on or after 1 April 2022; for taxpayers in ITSA with business or property income over £10,000 per year, from accounting periods beginning on or after 6 April 2023; and for all other taxpayers in ITSA, from accounting periods beginning on or after 6 April 2024.

## The tax base

The tax base is the projected value of penalties and interest collected under the existing regime. This is estimated using historic data on penalties and interest paid.

## Costing

The static costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above and taking the difference between the two.

Behavioural responses are included to account for a change in behaviour to avoid paying penalties.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | +5 | +90 | +155 | +155 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

# VAT: powers to tackle Electronic Sales Suppression

## Measure description

The measure tackles the form of tax evasion known as electronic sales suppression (ESS). ESS is where a business deliberately manipulates its electronic sales records in order to hide or reduce the value of individual transactions, thereby reducing tax liabilities. The measure will be effective from February 2022.

## The tax base

The tax base for this measure is based on the estimated number of businesses engaging in ESS and the associated tax lost.

## Costing

The costing estimates the increase in revenue from the improvement in caseworkers' compliance activity following the introduction of new powers.

The costing includes a behavioural response reflecting improved compliance.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | Neg | +5 | +20 | +20 | +20 | +20 |

## Areas of uncertainty

The main uncertainties in this costing relate to the tax base and the size of the behavioural response.

# OECD Mandatory Disclosure Rules

## Measure description

This measure covers the implementation of the OECD Mandatory Disclosure Rules, which would require UK tax advisers to report to HMRC information on tax arrangements that circumvent the Common Reporting Standard (CRS Avoidance Arrangements) and on structures that disguise the beneficial owners of assets held offshore (Opaque Offshore Structures). HMRC would then look to exchange the information with other participating tax authorities.

## The tax base

The tax base is the estimated amount of annual tax lost in the first year that individuals start evading tax offshore.

## Costing

The costing represents a behavioural response from a decline in first-time tax evasion following the measure.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | 0 | Neg | +5 | +5 | +5 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# HMRC: investment in compliance

## Measure description

This proposal adds around 1,600 full-time equivalent staff into operational teams in HMRC to improve its existing compliance work on emerging tax and payment risks and to improve debt collection capability.

## The cost base

The cost base consists of the tax gap for all customer segments (the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid), fraudulent claims under COVID-19 support schemes, and overdue uncollected debt between £500 and £40,000.

## Costing

The costing includes funding for HMRC, impacts on compliance yield reflecting reprioritisation (including to respond to COVID-19), and additional compliance yield from higher staffing levels and new programmes.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -55 | -500 | -460 | +110 | +750 | +1,310 |

## Areas of uncertainty

Areas of uncertainty in this costing relate to the assumption of collection rate.

# DWP: investment in compliance

## Measure description

This measure increases investment in DWP and local authorities' capacity and analytical capability to prevent and detect welfare fraud and error, including fraud as a result of serious and organised crime. The investment includes DWP recruiting up to 350 new members of staff.

## The cost base

The cost base is estimated using DWP's existing forecasts for Universal Credit, Employment and Support Allowance and Housing Benefit expenditure for overpayments and recoveries and data from DWP and local authorities on success rates of current prevention activity.

## Costing

The costings are estimated by reviewing DWP and local authorities' current activity, and the impact of existing investment on reducing fraud and error, to make evidence-based assumptions about the impact of additional resource and improved analytical capability on overall rates of fraud and error.. The costing does not account for any behavioural impacts.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -10 | +190 | +235 | +250 | +250 |

## Areas of uncertainty

The main uncertainties in this costing relate to assumptions of the number of successful hit rates targeting fraud and error and forecast volumes of cases. collection rate

# Coronavirus Job Retention Scheme: extension to April 2021

## Measure description

The Coronavirus Job Retention Scheme (CJRS) aims to mitigate the impact of coronavirus on the economy by encouraging employers that cannot maintain their workforce because their operations have been affected by coronavirus (COVID-19) to retain their employees. In December 2020, the Chancellor announced that the CJRS would be extended to April 2021. The scheme will provide the same level of support as the previous extension covering November 2020 to March 2021.

## The cost base

The number of employments furloughed per month is projected in line with the OBR's economic forecast.

Outturn CJRS claims data is used to estimate the average monthly claim amounts for furloughed employments. Average claims are adjusted in line with a projection of the level of flexible furloughing proportion of employees furloughed flexibly (i.e. furloughed for less than 100% of usual hours) in April.

## Costing

The costing is estimated by taking the product of the estimated number of employments furloughed per month and average monthly claim. Adjustments are made for estimated tax and National Insurance receipts on salary payments supported by the CJRS and to remove payments to the public sector.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | -2,665 | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the number of employments furloughed per month, average claim amount and income tax and National Insurance payments on salary payments supported by the CJRS.

# Research and Development PAYE Cap: updated design

## Measure description

This measure updates the R&D SME PAYE Cap which was announced at Budget 2018 and modified at Budget 2020. This measure introduces two additional features to the R&D PAYE cap design:

- A company can include PAYE and NIC liabilities attributable to the R&D work done for it by connected parties, or by workers supplied by connected parties, in the calculation of the cap.
- A company's claim will be exempted from the cap if it meets two tests: (i) if its employees are creating, preparing to create or actively managing intellectual property (IP), and (ii) less than 15% of its qualifying R&D expenditure is spent with connected parties.

The measure will come into effect for accounting periods starting on or after 1 April 2021.

## The tax base

The tax base is the qualifying R&D expenditure of companies claiming payable tax credits under the SME scheme. This was estimated using published national statistics for accounting periods ending in 2018-19, projected forward using OBR determinants.

## Costing

The static costing is estimated from the difference in yield between the modified design announced on 12 November 2020, when draft legislation was published, and the Budget 2020 design.

The costing accounts for a behavioural effect where businesses adjust their R&D expenditure or PAYE payments in response to the measure.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | Neg | -20 | -80 | -105 | -115 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# Business rates: changes to tax deductibility of business rates repayments

## Measure description

This measure will treat business rates relief repayments as an allowable expense, in line with the treatment of original business rates, thus allowing them to be deducted from profits subject to corporation tax (CT) or income tax (IT).

## The tax base

The tax base consists of the business rates relief repayments made by businesses.

## Costing

The static costing is estimated by applying the effective marginal tax rate to the difference between the pre- and post-measure tax base for 2020-21 and 2021-22.

The costing accounts for a behavioural response as this measure provides certainty on the tax treatment of repayments.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -160 | -30 | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response.

# UK Emissions Trading Scheme (UK ETS)

## Measure description

This measure provides for a standalone UK Emissions Trading Scheme (UK ETS) to replace the UK's direct participation in the EU Emissions Trading Scheme (EU ETS).

## The tax base

The overall tax base for the policy is identical to the tax base for the EU ETS, excluding Northern Ireland power producers who will remain in the EU ETS.

## Costing

The costing is estimated by applying the forecast UK ETS and forecast EU ETS prices to the tax base described above and estimating the impact of changed auction timings.

There is no behavioural response associated with this measure

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +15 | +50 | +35 | +15 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base and behavioural response. The UK ETS is an entirely new trading scheme, where market dynamics will be in play.

# VAT Tour Operators Margin Scheme (TOMS)

## Measure description

From 11pm on the 31 December 2020 the UK started to apply its own rules for UK tour operators. These allow tour operators to continue to account for VAT on the margin of supplies of tour operating services consumed with in the UK. The new rules also allow tour operators to apply the zero rate to supplies consumed outside of the UK.

## The tax base

The tax base is the total VAT revenue paid by UK Tour Operators under TOMS.

## Costing

The costing is produced using data on the VAT liability of UK tour operators, grown in line using OBR determinants and adjusted to account for a reduction in travel due to COVID-19.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -5 | -30 | -45 | -70 | -100 | -105 |

## Areas of uncertainty

The main area of uncertainty relate to the size of the tax base.

# VAT: reversal of the removal of Second Hand Margin Scheme for cars

## Measure description

This measure reverses the removal of the Second-Hand Margin Scheme. The reversal will be backdated to an initial implementation date of 1 January 2021.

Previously, second-hand motor vehicles sold in Northern Ireland that were purchased in Great Britain after 1 January 2021 were to have VAT charged on the full sale price.

## The tax base

The tax base (i.e. the amount to be refunded through the scheme) is calculated by applying the tax rate reduction to the total estimated value of second-hand cars sold in Northern Ireland that originated from Great Britain.

## Costing

The cost is estimated by projecting the tax base using the VAT accruals forecast. It includes a behavioural response to account for local purchasing of second-hand vehicles by Northern Ireland residents.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | Neg | -5 | -5 | -5 | -5 | -5 |

## Areas of uncertainty

The main area of uncertainty relate to the size of the tax base.

# VAT: repeal the VAT Treatment of Transactions Order 1992

## Measure description

The measure corrects an anomaly and prevents public sector bodies from claiming 100% refunds of VAT for their employees' own cars supplied under salary sacrifice arrangements. Instead public sector bodies will recover 50% as originally intended.

## The tax base

The tax base is the value of claims for refunds received. The costing is based on information about the claims received by HMRC for relevant VAT refunds.

## Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above.

There is no behavioural response associated with this measure.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | 0 | +5 | +15 | +15 | +15 | +15 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# Self-assessment: penalty easement

## Measure description

HMRC announced that Self-Assessment (SA) customers would not be issued a late filing penalty for the 31 January 2021 deadline for 2019-20 returns, provided they filed by 28 February due to the impact of Covid-19. Those who filed between 31 January 31 and 28 February will still be regarded as late, but will have the Reasonable Excuse of "impacted by Covid-19" applied and therefore have the penalty waived. From the 1 March, those who are yet to submit their return will be liable to normal late filing penalties.

## The tax base

The tax base for this measure is historic issuance and collection of SA late filing penalties, specifically First Fixed Penalties issued for those who file late but still within 3 months.

## Costing

The static costing is estimated by applying the pre- and post-measure penalties regimes to the tax base described above.

Behavioural responses are accounted for in the costing where customers who would otherwise file in March or April switch to filing in February to avoid paying penalties.

The costing also includes the impact of the easement on Self-Serve Time To Pay registrations, with a proportion of 2020-21 repayments now being expected to be made in 2021-22.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -105 | +100 | Neg | Neg | Neg | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the behavioural response.

# COVID-19: easement for employer-provided cycles exemption

## Measure description

This measure introduces a temporary easement from 16 March 2020 until 5 April 2022 for existing users of the employer-provided cycles exemption, to disapply the condition that cycles must be used mainly for qualifying journeys. This applies to existing users who received a cycle or cyclists safety equipment on or before 20 December 2020.

## The tax base

The tax base was estimated using data provided to HMRC from the Cycle to Work alliance (C2WA).

## Costing

The costing is estimated by applying the pre- and post-measure tax regimes to the tax base described above.

There is no behavioural response associated with this measure.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -5 | Neg | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the size of the tax base.

# HMRC: additional resource for debt pursuit, delay from September 2020 to April 2021

## Measure description

This measure postpones the introduction of additional HMRC resource for debt pursuit from September 2020 to April 2021.

## The tax base

The tax base consists of overdue and uncollected debt.

## Costing

The costing has been adjusted for the delayed implementation date and is calculated by estimating the debt collected by the additional staff, largely based on historic performance and by multiplying the tax base by the estimated collection rate.

There is no behavioural response assumed in this costing.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -55 | Neg | 0 | 0 | 0 | 0 |

## Areas of uncertainty

The main uncertainties in this costing relate to the assumption of collection rate of debts.

# UK-EU Future Relationship Agreement on Social Security Coordination: benefit rules

## Measure description

Under the UK-EU Future Relationship Agreement on Social Security Coordination (SSC), the export of certain DWP benefits to individuals moving to the EU, EEA, or Switzerland has ended, unless an individual is covered by provisions of the Withdrawal Agreement. There are separate arrangements in place for those covered by the Withdrawal Agreement (or equivalent agreements with the EEA States and separately with Switzerland), and with Ireland.

## The cost base

The costing is based on DWP benefit expenditure and, and economic determinants as forecasted by OBR.

## Costing

Using the median benefit duration of benefit claims abroad and the estimated flows, annual inflows and caseloads are assessed. These are multiplied by the average award abroad to estimate the expenditure. The annual inflows and expenditure figures are then summed for each benefit. The costing does not assume behavioural impacts.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | Neg | Neg | +5 | +5 | +5 | +5 |

## Areas of uncertainty

The main uncertainties in this costing relate to future migration flows.

# Local government: Exceptional financial support for Local Authorities through a capitalisation direction

## Measure description

This measure allows a small number of Local Authorities (LAs) to borrow for revenue spending to cover financial pressures. These LAs will undergo an assurance review which is expected to identify capital receipts that can be used to repay this borrowing in the later years of the forecast. This borrowing will attract a 1% higher interest rate than the normal Public Works Loan Board (PWLB) lending rate. Full details of the agreements with these LAs have been published by the Ministry for Housing, Communities and Local Government.

## The cost base

The cost base for this measure is the OBR's local authority capital and revenue expenditure forecast.

## Costing

The costing is derived from the quantum of the capitalisation granted and an assessment of possible capital receipts that may be generated. The costing also accounts for the higher rate of interest paid and potential foregone commercial income associated with existing capital assets.

## Exchequer impact (£ million)

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| Exchequer impact | -60 | -55 | +25 | +25 | +25 | +25 |

## Areas of uncertainty

The main area of uncertainty is the outcome of the assurance reviews and therefore the quantum and timing of possible capital receipts.

# Annex A

# Indexation in the public finance forecast baseline

The following table shows the indexation assumptions that have been included in the public finances forecast baseline, including all pre-announcements, for Budget 2021 policy costings. This does not include the changes made at Budget 2021.

| Forecast area | Element | Default indexation assumed in the baseline | Previously announced policy changes from 2021-22 onwards |
|---|---|---|---|
| Income Tax | Personal Allowance | Increase by September CPI, rounded up to the nearest £10 | Increase by CPI from £12,500 to £12,570 in 2021-22. |
| | Basic Rate Limit | Increase by September CPI, rounded to the nearest £100 | Increase by CPI from £37,500 to £37,700 in 2021-22, to increase the Higher Rate Threshold to £50,270. |
| | Personal savings allowance | Fixed at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers | |
| | Dividend Allowance | Fixed at £2,000 for all taxpayers | |
| | Starting rate limit for savings income | CPI, rounded up to the nearest £10 | |
| | Threshold for additional rate | Fixed at £150,000 | |
| | Income limit for tapered withdrawal of personal allowances | Fixed at £100,000 | |
| | Pensions Tax Relief – annual allowance | Fixed at £40,000 | |
| | Pensions Tax Relief – tapered annual allowance | Threshold income: Fixed at £200,000 Adjusted income: fixed at £240,000 | |
| | Pensions Tax relief – Money Purchase Annual Allowance | Fixed at £4,000 | |
| | Pensions Tax Relief – Lifetime Allowance | September's CPI, rounded up to the nearest £100 | |
| | Individual Savings Accounts – annual subscription limit | In line with CPI, rounded to the nearest £120 | |
| | Individual income threshold for high income child benefit – tax charge | Fixed at £50,000 | |
| | Marriage tax allowance | Fixed at 10% of the personal allowance, | |

| | | | |
|---|---|---|---|
| | | rounded up to the nearest £10 | |
| National Insurance contributions | Lower earnings limit | September's CPI, rounded down to the nearest £1pw | The Lower earnings limit will remain the same in 2021-22 due to the rounding rules which require the calculation of the CPI increase to be rounded down to the nearest £1pw |
| | Primary threshold / lower profits limit | September's CPI, rounded to the nearest £1pw. Annual PT/LPL is weekly multiplied by 52 | Increased by CPI from £9,500 to £9,568 in 2021-22 |
| | Secondary threshold | September's CPI, rounded to the nearest £1pw | Increased by CPI from £8,788 to £8,840 in 2021-22 |
| | Upper earnings limit / upper profit limit/ upper secondary threshold/ apprentice upper secondary threshold | Aligned with Income Tax Higher Rate Threshold | Increased by CPI from £50,000 to £50,270 in 2021-22 |
| | Small profits threshold | September's CPI, rounded up to the nearest £10 | Increased by CPI from £6,475 to £6515 in 2021-22 |
| | Contribution rates | Fixed percentage, apart from Class 2 and Class 3 weekly rates which rise by September's CPI, rounded to the nearest 5p | Class 4 and Class 1 rates remain fixed. Class 2 rates will remain the same in 2021/22 due to the rounding rules which require the calculation of the CPI increase to be rounded to the nearest 5p. Class 3 will increase by CPI from £15.30 to £15.40 per week in 2021-22 |
| | Employment allowance | Fixed at £4,000 | The Employment Allowance will remain fixed at £4,000 in 2021-22. |
| Capital Gains tax | Main annual exempt amount | CPI, rounded up to the nearest £100 | |
| | Annual exempt amount for trustees | Half of the main annual exempt amount | |
| | Lifetime allowance for business asset disposal relief | Fixed at £1 million | |
| Inheritance tax | Nil-rate band | September's CPI, rounded up to the nearest £1,000 | |
| | Residence nil-rate band | September's CPI, rounded up to the nearest £1,000 | |

| | | | |
|---|---|---|---|
| | Residence nil-rate band – threshold for tapered withdrawal | September's CPI, rounded up to the nearest £1,000 | |
| Working-age social security benefits and payments: Jobseeker's Allowance; Income Support; Employment and Support Allowance; | All main rates | September's CPI | |
| Local Housing Allowance | All main rates | September's CPI | Local Housing Allowance will be maintained at the elevated cash rates agreed for 2020/21, future increases will be revisited annually as part of the uprating review. |
| Universal credit | All main rates | September's CPI | |
| Disability Benefits: Disability Living Allowance; Attendance Allowance; Carer's Allowance; Incapacity Benefit; and ESA support group element and its UC equivalent | All main rates | September's CPI | |
| Statutory payments: Statutory Maternity Pay; Adoption Pay; Paternity Pay; Shared Parental Pay; Sick Pay; Maternity Allowance; and Guardian's Allowance | All main rates | September's CPI | |
| Basic State Pensions | All categories | Highest of May-July Average Weekly Earnings, September's CPI or 2.5% rounded to the nearest 5p | |
| Additional State Pension | All categories | September's CPI rounded to the nearest 1p | |
| New State Pension | All categories | Highest of May-July Average Weekly Earnings, September's CPI or 2.5% rounded to the nearest 5p | |
| Pension Credit | Guarantee Credit | Earnings growth rounded to the nearest 5p | Standard Minimum Guarantee in Pension Credit uprated by 1.9% in 21-22. This increase is equivalent to £3.35 a week – the weekly cash increase of the basic State Pension. |
| | Savings Credit | September's CPI rounded to the nearest 1p | |
| Child Tax Credit | Family element | Fixed at £545 per year | |

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| | Child element | September's CPI, rounded to the nearest £5 | |
| | Disabled and enhanced disabled child elements | September's CPI, rounded to the nearest £5 | |
| Working Tax Credit | Basic element, 30-hour element, second adult elements, lone parent element | September's CPI, rounded to the nearest £5. Calculation excludes temporary £1,045 increase to WTC basic rate in 2020-21 | |
| | Disability elements | September's CPI, rounded to the nearest £5 | |
| | Maximum eligible childcare costs (for 1and 2 +children) | Fixed at 70% of actual childcare costs of up to £175 a week for one child or £300 a week for two or more children | |
| Child benefit | Eldest (or only) child and subsequent children amounts | September's CPI, rounded to the nearest 5p | |
| Stamp duties | Stamp duty land tax thresholds for residential property (including lease premium) | Fixed at £125,000, £250,000, £925,000 and £1,500,000 | |
| | Stamp duty land tax thresholds for non-residential and mixed use freehold and leasehold premium transactions | Fixed at £150,000 and £250,000 | |
| | Stamp duty land tax residential transactions Net Present Value | Fixed at £125,000 | |
| | Stamp duty land tax thresholds for non-residential Net Present Value of rent. | Fixed at £150,000 and £5,000,000 | |
| Annual tax on enveloped dwellings | Annual chargeable amount | September's CPI, rounded down to the nearest £50 | |
| | Thresholds for charges | Fixed at £500,000, £1,000,000, £2,000,000, £5,000,000, £10,000,000 and £20,000,000 | |
| Apprenticeship Levy | Allowance | Fixed at £15,000 | |

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| Climate change levy | Levy amount | RPI | CCL main rates for gas are set at £0.00406/kWh for 2020-21 and £0.00465/kWh for 2021-22. Electricity rates are set at £0.00811/kWh for 2020-21 and 0.00775/kWh for 2021-22. The freeze of LPG was continued. Any other taxable commodity rates are set at £0.03175 per kg for 2020-21 and £0.03640per kg for 2021-22. |
| Aggregates levy | Levy amount | RPI | |
| Landfill tax | Tax rates | RPI, rounded to the nearest 5p | |
| Vehicle excise duty | Duty rates | RPI, rounded to the nearest £1 or £5 | |
| Air passenger duty | Duty rates | RPI, rounded to the nearest pound | |
| Tobacco duties | Duty rate on all tobacco products | RPI | Increased by RPI+2%. Hand-rolling tobacco was increased by an additional 4% (RPI+6% in total) and the Minimum Excise Tax was increased by an additional 2% (RPI+4% in total) |
| Alcohol duties | Beer, wine, spirits and cider duties | RPI, change normally takes place on 1 February | |
| Fuel duties | Duty rates | RPI | |
| VAT | VAT registration threshold | RPI, rounded to the nearest £1,000 | Fixed at £85,000 up to and including 21-22 |
| Gaming duty | Gross gaming yield bands | RPI, rounded to the nearest £500. Change occurs on the 1st April | |
| Business rates | Business rates multiplier | CPI | The 2020 Spending Review confirmed that the business rates multiplier would be frozen at the 2020-21 level. The small business multiplier will remain at 49.9p and the standard multiplier at 51.2p. |
| Soft Drinks Industry Levy | Levy amount | Fixed at 18ppl on sugar content 5-8g per 100ml, 24ppl on sugar content >8g per 100ml | |

## HM Treasury contacts

This document can be downloaded from www.gov.uk

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