

Title: Removing the Immigration Health Surcharge exemption of Intra-Company Transfers and their dependants, extending the human trafficking exemption to include victims of modern slavery and providing further clarity in interpretation of rules in the Immigration (Health Charge) Order 2015. IA No: HO0244 Lead department or agency: Home Office	Impact Assessment (IA)					
	Date: 23rd November 2016					
	Stage: Final					
	Source of intervention: Domestic					
	Type of measure: Secondary legislation					
Contact for enquiries: Migration Policy, Home Office						
Summary: Intervention and Options					RPC Opinion: Not Applicable	

Cost of Preferred (or more likely) Option					
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out?		Measure qualifies as
£96 million	NA	NA	No		NA

What is the problem under consideration? Why is government intervention necessary?

The immigration health surcharge (IHS) was introduced in 2015 to ensure that temporary, non-European Economic Area migrants contribute to the NHS in line with their immigration status. Following an internal review of the first 6 months operation of the surcharge and an independent review of the Tier 2 route by the Migration Advisory Committee (MAC), it is proposed that the wording in the operation of the Order is clarified, that the waiver for victims of modern slavery is converted to an exemption, and to implement the Migration Advisory Committee's recommendation that all users of the Tier 2 (Intra-Company Transfer) route pay the IHS.

What are the policy objectives and the intended effects?

The policy objectives are:

- to ensure that all users of the Tier 2 route of the Points Based System are treated equally with respect to the IHS;
- to provide greater clarity in the operation of the IHS in relation to a range of issues (see description of options below for more detail).

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0: 'Do nothing'. This option does not meet the above objectives.

Option 1: To make regulatory changes through the Immigration (Health Charge) (Amendment) Order 2017. These include:

- Removing the exemption for Intra-Company Transfer (ICT) migrants and their dependants.
- Tightening the wording in the principal Order to ensure that visitors who seek further leave to remain are exempt, that victims of modern slavery are exempt and that the surcharge can be requested following successful appeals against refusal of leave where the surcharge was not originally requested or the surcharge was refunded or successful appeals against the length of visa granted.

Will the policy be reviewed? It will not be reviewed. If applicable, set review date: NA					
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes/No	< 20 Yes/No	Small Yes/No	Medium Yes/No	Large Yes/No
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded:		Non-traded:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: Robert Goodwill Date: 20 December 2016

Summary: Analysis & Evidence

Policy Option 1

Description: To remove the health surcharge exemption of Intra-Company Transfers and their dependants

FULL ECONOMIC ASSESSMENT

Price Base Year 16-17	PV Base Year 16-17	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 81	High: 111	Best Estimate: 96

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Minimal	6	57
High	Minimal	10	96
Best Estimate	Minimal	8	77

Description and scale of key monetised costs by 'main affected groups'

Administration costs for the Home Office (HO) - minimal.
 Administration costs for the NHS - minimal.
 Commission paid by UK Visas and Immigration to third party companies for processing online IHS payments on its behalf – around £2 million (PV).
 Indirect Cost to Businesses from choosing to pay for IHS as part of relocation package for ICT migrants (main applicants only)– around £75 million (PV)

Other key non-monetised costs by 'main affected groups'

N/A

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	14	138
High	0	21	207
Best Estimate	0	17	174

Description and scale of key monetised benefits by 'main affected groups'

Income to Government from removing the ICT exemption - around £172 million (PV).
 Benefit to the Private Sector from receiving additional commission for processing online IHS payments on behalf of UKVI – around £2 million (PV)

Other key non-monetised benefits by 'main affected groups'

Greater clarity provided in cases of visitors extending leave to remain and surcharge payment following successful appeals, and exemption extended for victims of modern slavery.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
Employers of ICT migrants are assumed to choose to pay the IHS as part of relocation package. Dependants of ICTs, however, are expected to pay the IHS. This IA assumes implementation early 2017. Baseline volumes, therefore, were derived taking into account possible policy changes affecting the ICT visa route. Any fall in demand for ICT visas resulting from the removal of the IHS exemption is assumed to be negligible.		

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: NA	Benefits: NA	Net: NA	No	NA

Evidence Base (for summary sheets)

Problem under consideration

The Immigration (Health Charge) Order 2015, made under section 38 of the Immigration Act 2014 and implemented in April 2015, requires that non-EEA temporary migrants who make an immigration application to come to the UK for more than 6 months, or who apply to extend their stay in the UK, make a direct contribution to the NHS via payment of an immigration health surcharge (IHS). Exemptions from the requirement to pay the surcharge are listed in Schedule 2 of the Order and include those using the Tier 2 (Intra-Company Transfers) route. A number of provisions contained in the principal order have, following a review of the surcharge, been identified as areas where further clarification may be helpful. Government intervention is necessary to remove the exemption for those using the Tier 2 (Intra-Company Transfers) route so that they too pay the surcharge, ensure that victims of modern slavery are exempt, and provide greater clarification on the interpretation of rules.

Rationale for intervention

The rationale for the introduction of the immigration health surcharge is set out in the impact assessment dated 28 January 2015 which was laid with the draft Immigration (Health Charge) Order 2015. It can be viewed here: <http://www.legislation.gov.uk/ukdsi/2015/978011128473/impacts>

Since implementation of the Immigration (Health Charge) Order 2015, non-EEA temporary migrants who make an immigration application to come to the UK for more than 6 months, or who apply to extend their stay in the UK, subject to certain exemptions, make a direct contribution to the NHS via payment of an immigration health charge. The charge is currently set at £200 a year each for temporary migrants and their dependants, with a discounted rate of £150 a year for students and their dependants, and for applicants using the Youth Mobility Scheme. The charge is collected at the point a migrant applies for a visa or to extend their stay in the country. Those who pay the charge can access NHS services free of charge whilst their leave remains valid, subject to those charges UK residents must pay for such as prescriptions and dental treatment in England. In its first year of surcharge operation, the Home Office transferred more than £140 million in income for the NHS¹.

Last year, and as part of a wider review of Tier 2, the independent Migration Advisory Committee were asked to consider the case for applying the IHS to Intra-Company Transferees. In January 2016, the MAC published its review, which included a recommendation that all users of the Tier 2 (Intra-Company Transfer) route pay the IHS in line with other users of the Tier 2 route². The Government has accepted this recommendation.

The wording in the principal Order is also being tightened to ensure that visitors who seek further leave to remain are exempt, that victims of modern slavery are exempt and that the surcharge can be requested following successful appeals against refusal of leave where the surcharge was not originally requested or was refunded or successful appeals against the length of leave granted.

These clarifications aim to:

- Make clear that migrants who apply for further leave to remain under Appendix V (visitors) of the Immigration Rules do not pay the surcharge.
- Provide an explicit exemption from the surcharge for victims of modern slavery who are applying for discretionary leave under criteria set out in the competent authority guidance or leave as a domestic worker who is a victim of slavery or human trafficking, following a positive Conclusive Grounds decision.
- Amend the rules so that those who successfully appeal against the decision to refuse leave are required to pay the IHS in circumstances where the surcharge was either not requested at the point of application or was refunded.

¹ <http://data.parliament.uk/DepositedPapers/Files/DEP2016-0298/JB to Rt Hon K Vaz MP Immigration Health Surcharge Admin 2015-16.pdf>

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/493039/Tier_2_Report_Review_Version_for_Publishing_FINAL.pdf

- Make it clear that those granted additional leave on successful appeal are required to pay the IHS for the entirety of leave granted.

These clarifications are not expected to have any immediate impact due to the rationale for change being to make explicit how to treat these cases should they arise. Likewise, there is no financial impact from the modern slavery amendment because victims of human trafficking are exempt from the surcharge and victims of slavery who are not also victims of human trafficking have the surcharge waived. As such, the analysis presented in this Impact Assessment focuses solely on the change to apply the Immigration Health Surcharge to users of the Tier 2 (Intra-Company Transfers) route.

Policy objective

The objective of this amendment to policy is to ensure that users of the Tier 2 (Intra-Company Transfers) pay the immigration health surcharge in line with other Tier 2 migrants and that greater clarity in interpretation of the Immigration (Health Charge) Order is provided, including where exemptions apply.

Description of options considered

Option 0: 'Do nothing'. Intra-Company Transfers would continue to be exempt from paying the immigration health surcharge, and the Immigration (Health Charge) order remains un-amended leaving certain elements open to interpretation.

Option 1: To remove the exemption for Intra-Company Transfers, and provide further clarity in interpretation of rules in the Immigration (Health Charge) Order.

Risks and assumptions

The section below sets out the data and assumptions used to quantify the impacts of the proposed changes. This section will focus on the removal of the exemption for ICTs as the other proposals are simply a clarification of existing rules so that they are in line with the current operation of the policy. The proposal to amend the rules so that those who successfully appeal against the decision to refuse leave are required to pay the IHS is also likely to generate additional income. This is expected to be minimal, however due to uncertainty around the precise volumes affected, it has not been possible to estimate the impacts of this proposal.

Impact on application volumes as a result of this proposal

The change in income from the surcharge is based on estimates of Tier 2 taking into account the wider range of planned policy changes which might affect future ICT volumes³. It is possible that the removal of the ICT exemption could potentially result in a reduction in the number of visa applications from ICTs, resulting in a reduction in estimated surcharge income. However, it is assumed that any fall in demand for ICT visas resulting from the removal of the IHS exemption will be negligible. This is because the increase in cost to ICTs is small relative to their expected income over the duration of stay in the UK⁴. For simplicity, the estimates presented in this IA are derived under the assumption that the changes will not result in a further reduction in visa applications from ICTs, but are based on a range of potential volumes for ICT visa grants (Low, Central, and High cases relate to low, central, and high assumed volumes). Potential risks arising from this assumption are discussed in the 'Sensitivity Analysis' section below.

Duration of stay

Home Office internal analysis suggests that the average duration of stay is 1 year for short-term ICTs and their dependants, and 3 years for long-term ICTs and their dependants. Although the short-term ICT route is planned to close from April 2017, this IA assumes that across the ICT category as a whole the average duration of stay will remain constant in future years. The uncertainty surrounding this assumption means that there is a risk that we have under or over estimated the impacts of this policy should the actual average duration of stay turn out to be longer or shorter than the level assumed in this IA.

³ <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2016-03-24/HCWS660>.

⁴ In 2015-16, the median annual salary plus allowances earned by ICTs was 41,500 (source: Home Office analysis). Therefore, an annual charge of £200 is expected to represent less than 1% of the average ICTs' income.

Monetised and non-monetised costs and benefits of each option

In January 2012, the Migration Advisory Committee (MAC) published a report on the impacts of migration and recommended that migration policy impact assessments should concentrate on the welfare of the resident population. That is, the NPV should include the effects from any change in fiscal, public service, consumer and producer surplus and dynamic effects where practical and appropriate, but should exclude foregone migrant wages (net of taxes). In line with this, this IA does not discuss the impacts on the migrant of paying the health surcharge.

This IA identifies both monetised and non-monetised impacts with the aim of understanding what the net impact might be from implementing the options described above. All costs and benefits are compared against option 0 ('do nothing'). In addition, the appraisal has been conducted using the central estimates and assumptions set out above.

The estimated volume impacts from the introduction of a surcharge are thought to be negligible, but making Tier 2 (ICT) visa applications subject to the Immigration Health Surcharge will have other impacts which are translated into monetary values for inclusion in the cost benefit analysis under two broad headings – direct costs and benefits, and indirect, wider, costs and benefits.

The **direct costs and benefits** are those that are clearly and immediately related to the introduction of a surcharge. The direct costs include, for example, the costs to Government of administering this scheme. The direct benefits, on the other hand, include income from the surcharge.

The **wider, or indirect, costs and benefits** are those that occur as a result of the direct impacts, including behaviour changes. They should be considered when the impacts are thought to be significant. The wider costs include a set of assumptions relating to the wider economy. The wider costs and benefits include the impact on UK public services if the volume of people applying for UK migration products is affected.

The following sections describe in more detail how costs and benefits have been calculated, and summarise the results. In general, the method is straightforward: total costs and benefits are the product of a change in volume and an estimated unit cost or benefit, adjusted for the particular impact being considered.

Option 0 – 'Do nothing'. Intra-Company Transfers would continue to be exempt from paying the immigration health surcharge, and the Immigration (Health Charge) Order remains un-amended leaving certain elements open to interpretation.

There are no additional costs and benefits under this option. As costs and benefits of this option are compared against themselves, the Net Present Value (NPV) is necessarily equal to zero.

Option 1 – To remove the exemption for Intra-Company Transfers, and provide further clarity in interpretation of rules in the Immigration (Health Charge) Order

Direct impacts

Direct costs

One-off implementation costs for the Home Office: The Home Office would incur the additional cost of updating the visa application form and updating information available to prospective applicants around the new proposals. In addition, IT systems would need to be updated. These costs are estimated to be minimal.

One-off training and familiarisation costs for the NHS: Training and familiarisation costs for the NHS are expected to be minimal as the proposed changes are not to introduce new practices, and therefore Overseas Visitor Managers (OVMS) would not be required to change their processes.

Administration costs for the Home Office: Under the 'Do nothing' option (*status quo*), Home Office frontline staff are responsible for verifying whether migrants are subject to the surcharge, including those who are exempt on the basis of existing reciprocal agreements. Therefore, the additional costs arising from the increase in the volume of migrants who are subject to the surcharge would be limited to confirming payments, issuing refunds, requesting underpayments, processing overpayments and dealing with cases which go to appeal. However, given the size of the increase in the number of migrants subject to the surcharge, the additional administrative burden to the Home Office is expected to be minimal.

Administration costs for the NHS: Under the current situation, NHS frontline staff are already required to identify whether a patient is covered by the health surcharge. The additional administrative burden,

therefore, relates to having to identify those who are covered by the surcharge. However, given the small increase in the number of migrants who are liable to pay the surcharge resulting from this policy, additional identification costs are expected to be minimal.

Cost to UK Visas and Immigration (UKVI): UKVI currently pays a commission to third party companies for processing online IHS payments on its behalf. As the total amount charged to UKVI is proportional to the surcharge income collected overall, an increase in the income from the surcharge would result in additional costs to UKVI. Given the volume of ICT applicants is relatively small compared to the total number of migrants subject to the surcharge, the additional cost to UKVI is expected to be around £0.3 million per year (around £2 million in PV over 10 years) in 2016-17 prices.

Direct benefits

Increased revenue from the removal of the exemption for ICTs: The removal of the exemption for ICTs is expected to result in additional revenue to the Public Sector as an increased number of applications would now attract the surcharge. Assuming the central scenario volumes and the duration of stay set out in the 'Risks and Assumptions' section, the additional income is estimated to amount to approximately £17 million per year (around £172 million in PV over 10 years) in 2016-17 prices. This is an average over the 10-year period. (Note that figures may not sum due to rounding.)

Table 1: Estimates of increased revenues to the NHS due to ICT main applicants paying the IHS (transfer, £M)

	PV: 2016-17, Price 2016-17	
	Average Annual	Total over 10 years
High	9	94
Central	8	75
Low	6	55

Source: Home Office estimates

Table 2: Estimates of increased revenues to the NHS due to ICT dependants paying the IHS (£M)

	PV: 2016-17, Price 2016-17	
	Average Annual	Total over 10 years
High	11	111
Central	10	96
Low	8	81

Source: Home Office estimates

Increased Private Sector revenue from commission from processing online IHS payments on UKVI's behalf: As the amount charged is proportional to the surcharge income collected, an increase in the income from the surcharge would result in additional costs to UKVI. Given the volume of ICT applicants is relatively small compared to the total number of migrants subject to the surcharge, the additional benefit to the Private Sector is expected to be around £0.3 million per year (around £2 million in PV over 10 years) in 2016-17 prices.

Indirect impacts

As discussed in the 'Risks and assumptions' section above, overall the proposed removal of the IHS exemption for ICTs is expected to lead to a net reduction in demand for UK visas. However, as this is likely to be negligible, we have not quantified the potential indirect impacts. A qualitative analysis of the potential impacts on UK visa demand is discussed in the 'Sensitivity Analysis' section below.

Impact on businesses

It is expected that there would be no direct regulatory cost to UK business as the proposed charges are not considered to be a new regulatory burden. Some UK businesses, however, may choose to pay for the surcharge if they are already paying for the application costs of ICTs coming to the UK from overseas. Under the assumption that all businesses choose to pay the surcharge on behalf of ICTs as part of their relocation package, but not of their dependants, under the central scenario, this policy will generate an indirect cost to businesses of around £8 million per year (around £75 million in PV over 10 years) in 2016-17 prices, which is effectively a transfer to the NHS, and therefore partially offset the direct benefit from the increased revenue from the IHS. There is uncertainty about employers' behavioural responses, and therefore the estimate of the transfer from businesses to the NHS should be seen as an upper limit: if businesses choose not to pay the surcharge on applicants' behalves or to pay and pass the cost onto ICTs through lower salaries, this indirect impact on business would be reduced compared to what is presented here and the net present value of the proposed policy could increase.

Table 3: Estimates of increased costs to UK employers paying the IHS on behalf of ICT main applicants (transfer, £M)

	PV: 2016-17, Price 2016-17	
	Average Annual	Total over 10 years
High	9	94
Central	8	75
Low	6	55

Source: Home Office estimates

Summary of costs and benefits

Under the central scenario, this policy is estimated to have a positive NPV of around £96 million over 10 years (in 2016-17 prices) as the increased revenue due to ICT main applicants paying the IHS is effectively a transfer from UK businesses to the NHS. It is important to note that these figures are best estimates and that they are subject to uncertainty as the actual impact of this policy could depend on a number of factors which, due to uncertainty, have not been included in our analysis.

Table 4: Net Present Value of increased revenues to the NHS from removing the exemption of ICTs (£M)

	PV: 2016-17, Price 2016-17		
	One-off	Average Annual	Total over 10 years
High scenario			
Direct Costs			
One-off implementation costs for the Home Office	*	-	*
One-off training and familiarisation costs for the NHS	*	-	*
Administration costs for the Home Office	-	*	*
Administration costs for the NHS	-	*	*
Cost to the Public Sector from paying commission on surcharge income	-	0.3	2
Indirect costs			
Costs for UK businesses	-	9	94
Total costs	-	10	96
Benefits			
Increased revenue from removing exemption of ICTs and their dependants	-	21	205
Increased Private Sector revenue from commission from the surcharge	-	0.3	2
Total benefits	-	21	207
Net impact	*	11	111
Central scenario			
Direct Costs			
One-off implementation costs for the Home Office	*	-	*
One-off training and familiarisation costs for the NHS	*	-	*
Administration costs for the Home Office	-	*	*
Administration costs for the NHS	-	*	*
Cost to the Public Sector from paying commission on surcharge income	-	0.3	2
Indirect costs			
Costs for UK businesses	-	8	75
Total costs	-	8	77
Benefits			
Increased revenue from removing exemption of ICTs and their dependants	-	17	172
Increased Private Sector revenue from commission from the surcharge	-	0.3	2
Total benefits	-	17	174
Net impact	*	10	96
Low scenario			
Direct Costs			
One-off implementation costs for the Home Office	*	-	*
One-off training and familiarisation costs for the NHS	*	-	*
Administration costs for the Home Office	-	*	*
Administration costs for the NHS	-	*	*
Cost to the Public Sector from paying commission on surcharge income	-	0.3	2
Indirect costs			
Costs for UK businesses	-	6	55
Total costs	-	6	57
Benefits			
Increased revenue from removing exemption of ICTs and their dependants	-	14	136
Increased Private Sector revenue from commission from the surcharge	-	0.3	2
Total benefits	-	14	138
Net impact	*	8	81
Source: Home Office estimates			
Notes:			
Figures may not sum due to rounding			
Rounded to the nearest £100k if lower than £1m or to nearest £1m otherwise.			
* denotes costs and benefits which are expected to be minimal.			
- indicates nil costs or benefits. A 10-year average is provided for ongoing costs and benefits.			

Sensitivity analysis

The NPV estimates presented in this IA assume that there will be no net reduction in ICT applications as a result of the removal of the IHS exemption. However, as discussed above there is a risk that some ICT applicants may be deterred from coming to the UK due to the removal of the IHS exemption. If that is the case then we would expect the following impacts to materialise:

- *Loss to the Exchequer from reduced fiscal contribution from migrants:* A drop in the volume of migrants in the UK would result in a reduction in the potential fiscal contribution of migrants to the Exchequer, which could have a negative impact on UK residents.
- *Reduction in the Home Office income from visa fees:* A fall in application volumes would result in lower revenue from visa fees. This decrease, however, would be partially offset by the administrative savings associated with the consequent fall in processing costs.
- *Reduction in the Public Sector from reduced public service and welfare provision:* If there is a reduction in the volume of migrants in the UK, then this could help reduce pressures on public services by reducing the volume of people eligible to utilise them.
- *Increased employment opportunities for UK residents:* This option is likely to result in a drop in visa demand, which implies that jobs that would have gone to the migrant may become available to a UK resident. However, given the small number of people expected to be deterred from applying for UK visas due to this policy, the number of additional jobs available to UK residents each year is also estimated to be small.
- *Growth impacts:* A reduction in the number of migrants could potentially have an impact on economic growth. This is more likely to be at the higher skill level (e.g. ICTs) rather than at the lower skill level due to the dynamic spill-over effects of specialisation and knowledge transfer. Although it has not been possible to quantify this impact, this is likely to be negligible given the number of people who are expected to be deterred relative to the size of the UK population.

However, for the reasons outlined in the 'Risks and Assumptions' section, we expect the impacts of a reduction in ICT visa applicants to be negligible overall, and therefore have not been quantified.

Rationale and evidence that justify the level of analysis used in the IA (proportionality approach)

This policy is to make marginal amendments to current practices, not to introduce new practices, and therefore, where possible, we have adopted the same approach as in previous IHS IAs. However, in this IA we have moved away from elasticities assumptions and instead assumed that there could be an indirect impact on employers of ICTs as in our view it is reasonable to assume that some employers will choose to pay IHS on behalf of ICT migrants as part of the relocation package.

Summary and preferred option with description of implementation plan

The estimated costs and benefits of option 1 are summarised in Table 6 below.

Table 5: Costs and Benefits		
Option	Costs	Benefits
1	£10 million (PV over 10 years)	£96 million (PV over 10 years)
Source: HO analysis		

The Government's preferred option is option 1 as it better meets its policy objectives. The proposed changes are expected to be implemented early 2017.