

Rating the Autumn Statement

Technical

01 February 2015

In the past we have been asked by the House of Commons' Treasury committee to report on how well the Budget met its six tax policy principles: fairness; supporting growth and encouraging competition; certainty, including simplicity; stability; practicality; and coherence. We were quoted extensively in the committee's report on Budget 2014 and were happy to undertake a similar exercise for the Autumn Statement. Our report to the committee, which includes contributions from the ATT and LITRG, can be found here:

www.tinyurl.com/lbohehu

As in previous years, we had mixed views on how well the Autumn Statement performed against the six principles, finding that, although there were some measures that scored well, others did not. Overall, we felt that a rating of 8/10 was appropriate, as much in response to what the government has said it would not do as what it would.

We are pleased that the government has listened to feedback and has decided that there will be no changes to the rules on a non-resident's entitlement to the UK personal allowance. We had been concerned that the changes proposed earlier last year would have made the tax system unduly complicated and placed additional burdens on employers. We are glad that the government has taken this on board and decided not to proceed with its plans in this area.

Of the measures that were well received, we picked out the abolition of the slab system of stamp duty land tax (SDLT) as scoring highly under the category of 'basic fairness'. We felt that the outdated and unfair slab system distorted property sales by creating huge 'cliff edges' at particular property values. For example, a person who bought a property for £250,000 paid £2,500 in tax while someone who bought a property for £250,001 paid three times as much. In our view, the move to a system where SDLT is charged at each rate on the portion of the purchase price which falls within each rate band is both fairer and more sensible, preventing distortions in the market place and avoidance around the 'break points'.

The new Diverted Profits Tax (DPT) also raised concerns particularly because little information was available in the days after the Autumn Statement. In our report we expressed concern that the UK may well be developing the tax in advance of agreement on new principles of transfer pricing and taxable presence, and urged the government to ensure that the timing of the changes did not put the UK at a competitive disadvantage. In a follow-up letter written after the draft legislation for the DPT was published, we criticised the drafting of the new rules. We remarked that the legislation could bring into its scope a wide range of transactions, and a large number of companies would need to be aware of the new tax and consider whether they would fall inside it.

We hope that the Treasury committee will take our views into account when it reports on the Autumn Statement.