Spring Budget 2020: Treasury Committee evaluation

General Features

29 April 2020

As is the case following each Budget, the Treasury Committee invited comments on how the Spring Budget 2020 meets the committee's tax policy principles. The CIOT and ATT provided comments and these are summarised below.

The Treasury Committee's principles can be found in full in its report published in March 2011 (see https://tinyurl.com/qvgnjxb), but in brief the report recommended that tax policy should be measured by reference to the following principles: be fair, support growth and encourage competition, provide certainty (which requires legal clarity, simplicity and targeting), provide stability, be practicable and be coherent.
Spring Budget 2020 was, understandably, dominated by COVID-19 and the government's plans to support public services, individuals and businesses. But consistent with previous fiscal events, it did contain a number of tax 'surprises'.

CIOT's comments

We welcomed the fact that Spring Budget 2020 announced a number of consultations across a range of taxes, both new and existing. In that regard the Budget scored well, both against the Treasury Committee's principles and also the tax consultation framework. Similarly, reviews of existing taxes and measures were also announced and (subject to these being undertaken in a collaborative fashion) are also welcome.

Unfortunately, there were exceptions, including one of the most important tax announcements in the Spring Budget 2020 – the 90% reduction of the lifetime limit in entrepreneurs' relief from £10 million to £1 million – with the expected review seemingly having been undertaken behind closed doors. A number of measures also have an element of retroaction (as opposed to retrospection), including the changes to entrepreneurs' relief, private residence relief, and protecting your taxes in insolvency – all of which will impact to the detriment of the taxpayer. These measures therefore scored poorly around certainty and stability.

There were also measures which seek to 'rewrite the rules'; namely, clarifying the treatment of limited liability partnership returns, and HMRC automation. Whilst these two measures are intended to maintain the 'status quo' in a practical sense, we are concerned about the fairness of changes which legitimise the (potentially erroneous) actions of HMRC, when such reparatory measures are clearly not open to taxpayers. So, whilst these measures may score well around areas such as certainty and coherence, there are fairness concerns as some taxpayers may have had their rights retrospectively removed.
The remaining measures within our scope were something of a mixed bag, with our greatest concerns around the property taxes changes, but most other measures receiving a cautious approval.

ATT's comments

The ATT commented on a number of measures, predominantly in relation to personal and corporate taxes, which on the whole scored relatively positively against the Treasury Committee's principles.

The ATT also regretted the lack of consultation around the entrepreneurs' relief announcement, particularly considering that the extent to which it actually increases entrepreneurship rather than merely rewards it has been rightly questioned, and because it remains extremely detailed and can produce anomalous outcomes.

The increase in the rate of Structures and Buildings Allowance was welcomed, particularly as the enhanced rate will be available from 1/6 April 2020 even where the qualifying expenditure was incurred between 29 October 2018 and 31 March/5 April 2020. But the ATT questioned the change against the principles of certainty and stability, especially as the allowance was introduced just 17 months ago.

In the corporate field, the ATT expressed concern that the extension of the corporate loss restriction rules to include capital losses would impose further reporting requirements on even the smallest companies. It questioned why the changes to the intangible fixes asset regime were not implemented sooner, and why it is being restricted to purchases from related parties which take place from 1 July 2020, as opposed to all pre-Finance Act 2002 assets. But the ATT welcomed the delay of the introduction of a cap on the tax credit payable by HMRC to loss-making businesses under the SME R&D scheme, urging HMRC to utilise the extra time to refine the final design of the measure. It did, however, lament the fact that the increase in the rate of tax relief available under the Research and Development Expenditure Credit (RDEC) scheme from 12% to 13% from 1 April 2020 was not also reflected in the corresponding regime for small and medium sized businesses.

At the time of writing, the Treasury Committee has not yet published the written evidence it has received, and so we are not able to publish our full responses on our websites. However, we will do so as soon as possible.