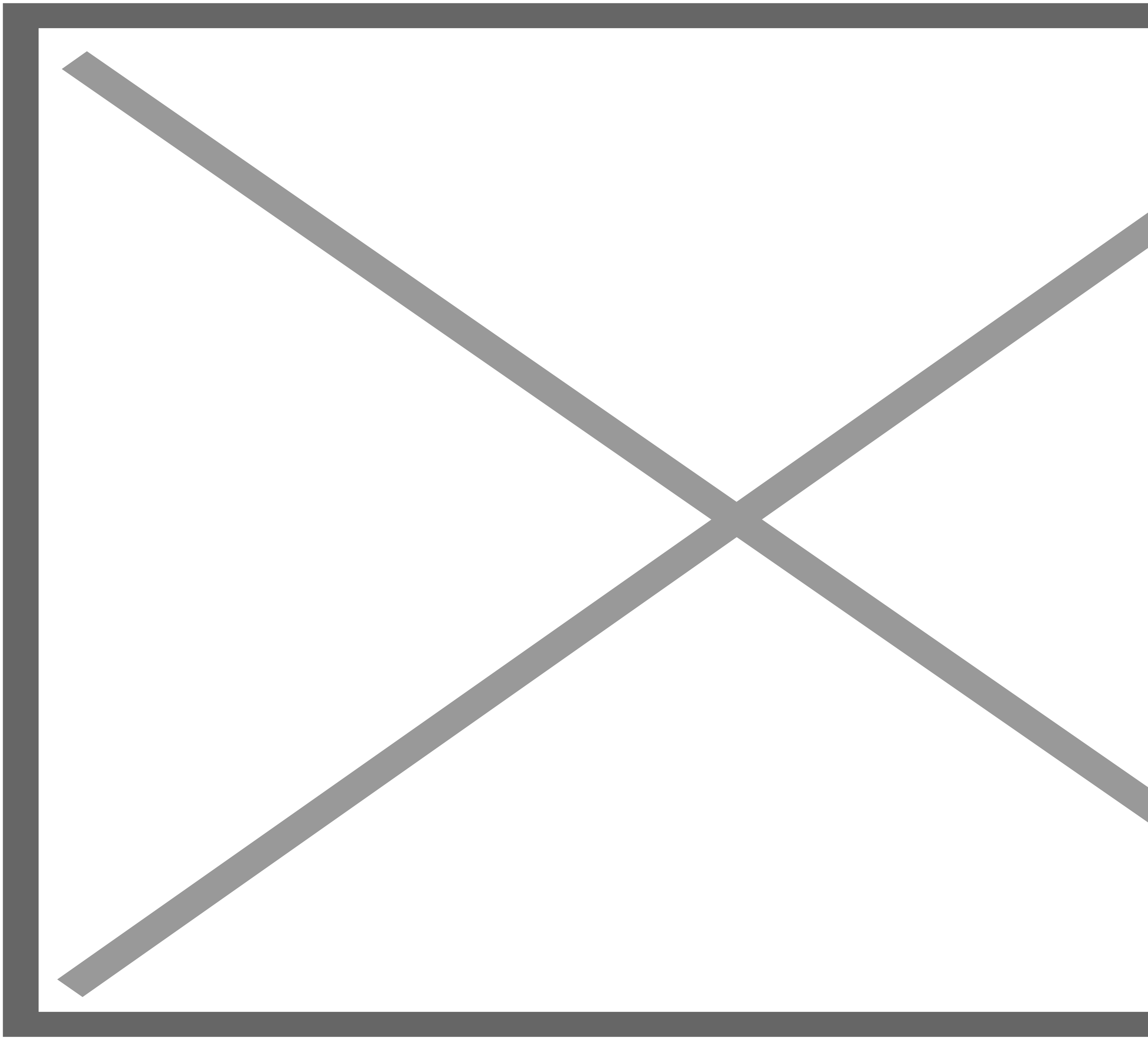
Responses to the pandemic

General Features



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Bill Dodwell considers the responses to Covid-19 offered through tax systems in the UK and overseas

For most of the last decade, the work of the OECD's tax team – the Centre for Tax Policy and Administration – has been focused on two main areas: enhanced transparency, such as automatic exchange of information; and changes to the international corporate tax rules, being the base erosion and profit shifting project and the latest work digital services. Nor should we ignore its other work, such as on a global VAT system and supporting developing countries.

The global Covid-19 pandemic has obviously impacted the global policy development programme. Pascal Saint? Amans recently confirmed that the secretariat is continuing to work on a global response to the taxation of digital services, but effectively acknowledged that it would be harder to complete the work to the original time frame.

The OECD secretariat has switched to monitoring the approaches taken by a wide range of countries to the Covid-19 pandemic, as well as offering guidance. Countries have introduced three types of support through the tax system (see the Report to the G20 finance ministers):

> 'Maintaining business cash flow has been a core goal of the fiscal policy measures that have been introduced, supported by monetary and financial policies. Measures have included extending deadlines for tax filing, the deferral of tax payments, the provision of faster tax refunds, more generous loss offset provisions, and some tax exemptions, including from social security contributions, payroll taxes or property taxes.
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> 'Countries have also implemented wide-ranging measures to help businesses retain their workers through short-time work schemes or wage subsidies. There is evidence, from policies implemented in the wake of the global financial crisis, that keeping people in work through such schemes is an effective way of providing income support and limiting job losses...
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> 'Income support to households has been extended in many countries, generally through targeted cash benefits rather than through tax cuts, given the need to deliver support quickly... Access to sick leave benefits has been eased and eligibility expanded, with several countries broadening the coverage of unemployment benefits to self-employed workers.'

The UK approach

If we compare the overall approach to that of the UK, we see that the UK has not extended filing deadlines but has offered relatively long extensions for paying VAT and the Self Assessment payment due on 31 July. Both may be deferred until 2021, without interest. HMRC continues to offer Time to Pay arrangements (covered by Chris Holmes and Jenny Jones on page 19).

The UK's furlough scheme supports the income of 8 million employees – about a third of the employed workforce. At the same time, the number of those claiming unemployment benefits has risen by almost 70% in April. The Office for National Statistics reported that about 856,500 people signed up for universal credit and jobseeker's allowance benefits. The furlough scheme doesn't capture those not on a payroll by the end of February, reported to HMRC by 19 March, which is thought to include several hundred thousand hospitality workers, according to evidence given to the Treasury Select committee.

The Self Employed Income Support Scheme paid out to over 2 million claimants in May (though HMRC estimated that up to 3.5 million are entitled to claim). Despite this, those who started up after April 2019 are not included; nor are contractors who provide services via companies and pay themselves in dividends. Finally, the UK has increased access to universal credit and extended the amount paid. The digital claim system has enabled it to increase rapidly the delivery of benefit. The Exchequer has also just announced the statutory sick pay scheme, which reimburses businesses with up to 250 employees for the cost of sick pay claims.

Double tax treaties

The OECD has also produced some guidance on tax treaaty application in the pandemic. Like the UK guidance, the OECD covers changes to the taxable presence of companies (permanent establishment) due to employees of the group being in an unexpected location. It notes that ‘the exceptional and temporary change of the location where employees exercise their employment ... such as working from home, should not create new permanent establishments’. Also, a home office needs to be ‘at the disposal’ of the employer to constitute a PE, which would not be the case in the majority of those cases.

Similar conclusions are reached on company and individual residence. The OECD also considers that furlough payments should be taxed in the country where employment was exercised. Given the global nature of the pandemic, it’s valuable to share information on how countries are offering support.

- We should very much appreciate your completing our survey about the impact of coronavirus on you and your organisation. We are gathering this information to help us continue to support and inform you. Please click here to complete the survey. The closing date is 30 June and we shall provide a report on our websites in July.