A focused Budget with a long tail

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Bill Dodwell considers the measures announced in the March Budget and the range of consultations announced on Tax Day

Chancellor Rishi Sunak has certainly delivered his two Budgets in extraordinary circumstances. This no doubt explains why both the 2020 and 2021 Budgets were very focused, without the large number of individual measures that Gordon Brown and George Osborne would certainly have introduced. However, some of the longer tail was released three weeks later, on Tax Day.

The Budget measures fall into three categories: short-term help for those adversely affected by the pandemic and lockdowns; medium term boosts to the economy; and a longer term start to reduce the current deficit, through increasing taxes.

Short term help

The full list of short-term measures is:

- Coronavirus Job Retention Scheme (CJRS): extension to September 2021 (see the article by Rachel McEleney and Natalie Backes on page 9);
- Self-employment Income Support Scheme (SEISS): two further 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;
- Business rates: three months 100% holiday, nine months 66% relief with cap; VAT: extension to reduced rate for hospitality, accommodation and attractions (5% to 30 September 2021, then 12.5% to 31 March 2022);
- VAT: extend the window for starting deferred payments through the VAT New Payment Scheme by up to three months;
- Stamp duty land tax: maintain nil-rate band at £500k until 30 June 2021, £250k until 30 September 2021;
- Universal credit: maintain £20 increase to standard allowance for six months;
- Universal credit: three-month delay to minimum income floor reintroduction;
- Universal credit: maintain surplus earnings de minimis at £2,500 in 2021/22;
- Shared accommodation rate (SAR): accelerate introduction of exemptions; and
- Statutory Sick Pay Rebate Scheme: extension.

Also, (as usual) fuel duty is frozen again, and alcohol duty gets a one-year freeze.

Boosting investment

The medium-term boost to investment came in the form of a super-deduction for companies' plant and machinery expenditure. Companies – but not partnerships or self-employed individuals – will be able 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 from 1 April 2021 to 31 March 2023. Operating leases, second-hand assets and cars are excluded. This is expected to cost over £25 billion, before some clawback in later years, as expenditure is brought forward. The government hopes that the substantial investment in plant and machinery will make the UK economy more productive by improving the technology, infrastructure and skills that workers need to produce goods and services.

Various bodies, including the CIOT, had asked the government to consider extending loss relief so that businesses can get rapid and effective relief for losses in the years affected by the pandemic. Their wish was granted with the introduction of three-year loss relief carry-back for trading losses from 1 April 2021, for companies, individuals and partnerships. The total amount that can be carried back per taxpayer in each additional year is £2 million, with the same cap for groups. The relief will apply to trading losses which occur in accounting periods which fall in the 2020/21 and 2021/22 tax years. It is expected to cost £1 billion in those two years, but it is predicted that all this will be recovered over the next four years, as the acceleration of loss relief unwinds.

Future tax increases

Finally, the chancellor made two important announcements for the future, which will raise tax and contribute to reducing the deficit. For individuals, allowances and thresholds will be frozen until 2025/26. Freezing the personal allowances and higher rate threshold initially raises £1.5 billion, rising rapidly to over £8 billion.

Companies will face a 25% rate of corporation tax on their profits from 1 April 2023. The existing 19% rate will be retained for companies/groups with profits not exceeding £50,000 with a marginal rate up to £250,000. This is thought to bring in over £16 billion annually, although some commentators have doubted whether it would be fully effective. Companies which account for deferred tax will need to reflect the new rates from enactment, or substantive enactment – both of which are likely to be in July 2021.

Tax Day

After the high-level announcements at the Budget, the government decided for the first time to announce separately a range of new consultations and responses to prior consultations. The financial secretary to the Treasury said in his foreword:

> '…this overall approach is itself intended to be something of a reform. By announcing these measures and consultations separately from the Budget, we are seeking to create greater visibility and transparency for Parliamentarians, tax professionals and other stakeholders. We hope that increased scrutiny of tax measures will increase the overall quality of tax policy and legislation, on which millions of taxpayers ultimately rely.'

Tax administration

The prime focus of the consultations is on tax administration reforms, including a new legislative framework suitable for a modern era, where many taxpayers do not need to file annual tax returns, instead relying on periodic reporting and updates to their forthcoming single digital account. The document notes that HMRC will receive £95 million to invest in the digital account and improve the tax payment process. The account will be developed around an individual, rather than around different taxes.

Consultations in this section include one on timely payment, which explores the potential for tax to be paid closer to the point of earning income. The paper notes the timing advantage available to the self-employed and to smaller companies, who pay tax much later than employed people. The paper states that no changes would be take effect in this parliament, reflecting the need for the economy to recover from the pandemic. Work by the Office of Tax Simplification has shown that many lower and middle income self-employed taxpayers would like to pay their tax much more frequently than the often unknown large payments twice a year.

There is also the latest response to the issue of raising standards in the tax advice market. The consultation asks for views on defining what is tax advice and proposes that anyone giving tax advice must have professional indemnity insurance. Members of the main professional bodies have been required to have insurance for many years and some have found that their insurers set limits on their scope of practice.

The consultation refers to 'better access to redress where [taxpayers] have received bad advice' but no doubt there is some anticipation that only advisory businesses meeting certain standards will be able to get insurance.

The Office of Tax Simplification is very pleased to see the announcement that the government accepts its recommendations for improving inheritance tax administration. From 1 January 2022, over 90% of non-taxpaying estates each year will no longer have to complete inheritance tax forms for deaths when probate or confirmation is required. In addition, the current temporary provision accepting an inheritance tax return without requiring physical signatures from all those involved will be made permanent. Reporting regulations will also be updated to clarify the requirement for estates to submit an inheritance tax account where the deceased was never domiciled in the UK but owned indirect interests in UK residential property.

Non-compliance

There is the inevitable update on measures to assist HMRC in tackling non-compliance. Perhaps the most significant is the latest development in relation to promoters, where there are plans to ensure HMRC can protect their position by securing or freezing a promoter's assets so that the penalties they are liable for are paid, tackling offshore promoters and the UK entities that support them, closing down companies that promote avoidance schemes and disqualifying their directors, and supporting taxpayers to identify and exit avoidance schemes.

The other area to think about is tax conditionality. The idea is to ensure that those who need licences to do business – such as private hire drivers – must prove they are registered for tax before they can renew their licence. The measure will start in England and Wales from April 2022 and the government will consult on extending the measure to Scotland and Northern Ireland, in conjunction with the devolved administrations. The House of Lords Economic Affairs committee expressed some concern that requiring applicants to demonstrate that they were registered for tax might drive them not to seek licences, which seemed an unhelpful worry and was rejected by the government, which 'remains committed to seeking views on the wider application of tax conditionality'.

Other areas

There were also a range of other consultations, responses and policy announcements. The fundamental review of business rates jogs along, with the release of an interim report, including responses to the original consultation. There is a consultation on aviation duty, with the intention of reducing the levy on domestic flights and increasing it on very long-haul flights. There will be a tightening up of the criteria for business rates in relation to self-catering accommodation; there has been evidence of some abuse here.

There is a consultation on transfer pricing documentation. The UK decided not to follow the original model set out in the base erosion and profit shifting project, believing that it already had sufficient information and powers to obtain additional information if needed. However, the new consultation will examine whether businesses in scope of country-by-country reporting should be required to maintain a master file and local file, and whether all businesses within the scope of UK transfer pricing legislation should be required to report specific information on cross border transactions with connected parties.

Interestingly, some proposals will not go forward, following consultation. These include possible changes to VAT grouping, the introduction of a carbon emission tax and reform to the tax treatment of trusts. This shows the value of responding well to consultations; we should not presume that everything consulted on will inevitably go ahead.

Finally, I must conclude by drawing attention to the announcement of the five-year review of the Office of Tax Simplification. The 2016 legislation for the OTS specified that the Treasury should review the effectiveness of its independent adviser on tax simplification. To support its work, the Treasury will appoint an expert panel to advise and seek views widely.