Business tax road map: where are we going?

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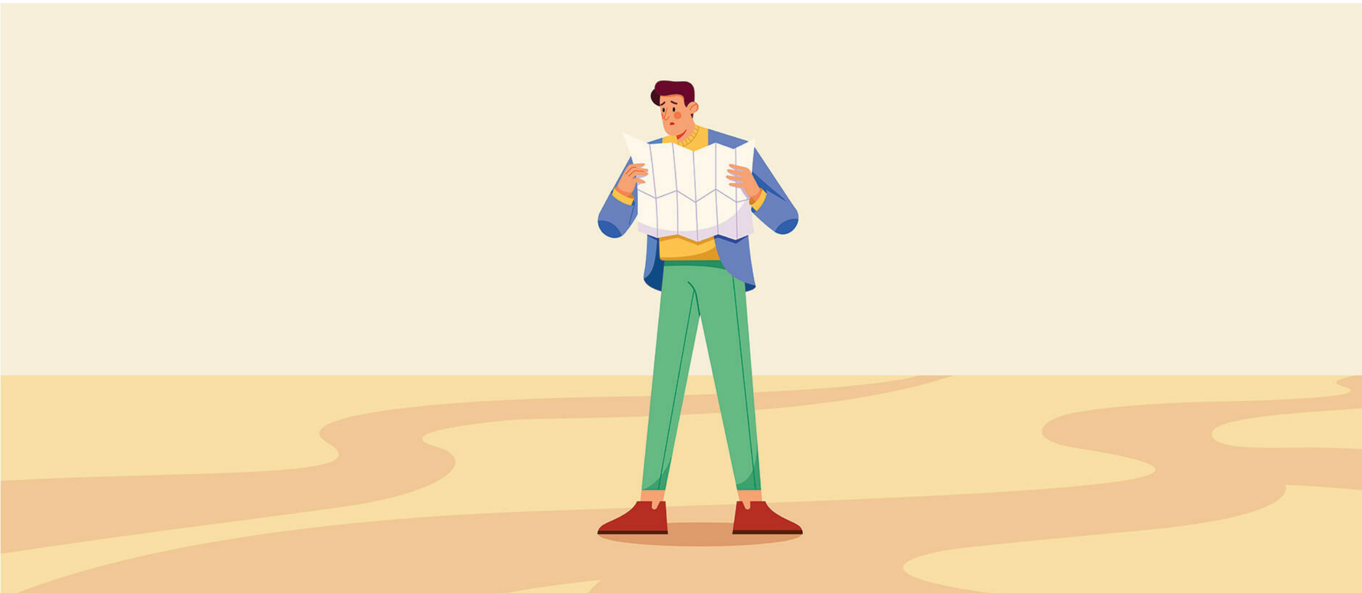

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Calls for a review of our tax policy are likely to multiply in the run up to an election. What can we learn from the road maps of recent administrations?

When half a dozen tax policy specialists gather, somebody often chips in with 'what we need is a road map'. Professional and representative bodies regularly call for this panacea. It's election year, so we should expect those siren calls to multiply.

The 2010 Coalition road map

In 2010, the Coalition government took office after 13 years of Chancellors Gordon Brown and Alistair Darling. The Conservative shadow Treasury team – David Gauke and Mark Hoban – had spent several years thinking about future tax policy and spending time with think tanks, as no doubt the shadow Labour team are currently doing.

The result was the 2010 Corporate Tax Road Map, ‘Corporate tax reform: delivering a more competitive system’ (see tinyurl.com/4ceyykcz), published after George Osborne’s first Budget, when he announced that corporation tax would be cut from 28% to 24%, over four years.

The road map was a long list of corporate goodies. As well as the significant rate cut, the road map announced:

- the potential introduction of a patent box, which charged an effective tax rate of 10% on profits in the ‘box’;
- a consultation on widening R&D tax credits;
- a consultation on an improved controlled foreign company regime, with specific relief for overseas finance companies;
- the introduction of an exemption for foreign branch income, replacing the then taxation of foreign income with relief for overseas tax (both a simplification and a tax cut); and
- continuation of the UK’s then almost unrestricted relief for interest and financing costs.

The moves on interest and controlled foreign companies were significant, as they represented a reversal from policies put forward by Alistair Darling, who had sought to reduce interest deductions and controlled foreign companies exemptions.

By 2012, however, Chancellor George Osborne had become aware that many multinationals were not paying as much tax as desired, even at the UK’s new lower rate. He took the lead at the November 2012 G20 meeting to request that the OECD’s administration start work on the base erosion and profit shifting (BEPS) project. That work reported in 2015, with a 15 point action plan to increase the corporate tax base and improve the information flow to tax authorities. Public and parliamentary pressure encouraged Osborne to introduce some elements of the BEPS package early, such as the diverted profits tax.

The 2016 Conservative road map

The new Conservative government published its ‘Business Tax Road Map’ (see tinyurl.com/2p8ac2p6) in March 2016. The environment had changed. This map majored on the adoption of the BEPS measures, which probably added at least 10% to the overall corporation tax paid by large companies.

There were some tax savings, though: a cut in corporation tax to 17% in 2020 was announced, together with business rates cuts, mainly for small businesses. The main rate of capital gains tax was cut from 28% to 20% and entrepreneurs' relief extended. Following the (unmentioned) Scottish example, stamp duty land tax was put on a slice basis. Corporate loss relief was to be reformed, so as to allow offset of trading losses against other profits in future years, including through group relief. However, the maximum offset was set at £5 million per year – which meant that this very sensible new policy actually raised money. A review of the substantial shareholdings exemption for companies was announced, which ultimately led to greater relaxations, such that almost all sales of a trading business are exempt from taxation. Class 2 NICs were to be abolished, which was intended to simplify the tax affairs of self-employed individuals, as Class 2 was collected separately from income tax and Class 4.

Showing a sense of humour, the road map also mentioned 'plans to introduce digital tax accounts, ending the need for annual tax returns'.

Lessons to learn

This second road map was never as welcomed as the first. Given that it included a similar level of detail, including a calendar, the only conclusion we can draw is that road maps are mainly welcomed when they announce a programme of tax cuts and improved reliefs.

What might a 2025 business road map look like? The state of the country's finances might suggest that there won't be much room for significant business tax cuts.

Perhaps a future map should cover tax administration. Providing individuals and companies with greater tax certainty should be on everyone's list, accompanied by investment in HMRC to help deliver this. A plan for digitisation would also be welcome. This could cover investment in HMRC's back end systems, as well as developing the single customer account so that individuals can see all their tax affairs in one place and use it to exchange information with HMRC. Given that millions will need to report interest, dividends and capital gains, having a digital plan to help this is needed. Finally, adding to the data provided directly to HMRC by third parties would be welcome, as it could reduce the level of tax reporting by individuals.