ICAEW
REPRESENTATION 34/21

TAX AFTER CORONAVIRUS

Issued 13 April 2021

ICAEW welcomes the opportunity to comment on the Tax after Coronavirus published by Treasury Select Committee on 1 March 2021, a copy of which is available from this link.

This response of 12 April 2021 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business.

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INTRODUCTION

1. On 1 March 2021, the Treasury Select Committee (TSC) published its report, Tax after Coronavirus (TAC). Commenting on the impact of the pandemic on the public finances, the committee observed

   ‘The public finances are on an unsustainable long-term trajectory that has been exacerbated by the coronavirus pandemic. Additional tax revenue could make a contribution to addressing this. But the tax measures that are most politically palatable in the short term are often not those that minimise distortions to economic activity in the longer term. This is a large-scale and long-term challenge that requires taking a view of the whole tax system, how it can be reformed, and how it can raise revenue in a way that minimises economic damage as well as effectively supporting public services, which can in turn promote growth.’

2. The TSC is not alone in these conclusions, as reflected in many of the announcements made in the March 2021 Budget and Tax Day announcements.
3. The TAC report makes recommendations for how the tax system should, in the opinion of the committee, be reformed and therefore goes further than its principles of tax policy set out in 2011.
4. ICAEW Tax Faculty has been invited to comment on the recent Budget and Tax Day announcements in the light of both the TAC report and the committee’s principles of good tax policy.
5. On the newly designated Tax Day, separated from Budget 2021, intending to allow ‘more space for scrutiny’, HM Treasury published more than 30 tax policy announcements and documents, including responses to seven consultations, four research papers and the opening of 12 new consultations.
6. In response to the TSC’s request, we comment on some of these proposals below. We should also emphasise that ICAEW’s Royal Charter obligations are to support the effective implementation of Government policy rather than with the underlying policy. Our comments below are therefore informed by the ease and efficacy of policy implementation rather than specific comments about policy design which is a decision for Government.

FREEZING INCOME TAX PERSONAL ALLOWANCES AND TAX RATE BANDS

7. The TSC report states that now is not the time for tax rises or fiscal consolidation which could undermine the economic recovery. However, while noting the government’s manifesto commitment not to raise the rates of income tax, NIC or VAT, the committee observes that the government could raise revenue by merely freezing income tax thresholds.
8. Responding to earlier calls for more certainty around tax rates, at Spending Review 2020 the government announced that the income tax personal allowance and the basic rate tax limit would be increased in line with the September CPI figure for 2021 to 2022 to £12,570 and £37,700 respectively for 2021/22. The higher rate threshold was increased to £50,270.
9. These pre-announced increases have been duly implemented, but at Budget 2021, the government announced there would be no further increases before 6 April 2026. This aligns with the TSC’s recommendations. We note that continuing to freeze for example the personal allowance, does lead to distortions elsewhere in the tax system, such as the clawback of the high-income child benefit charge beginning to impact basic rate taxpayers and also those affected by the withdrawal of the personal allowance.
10. Other limits have also been frozen.
11. The National Insurance contributions Upper Earnings and Upper Profits Limits remain frozen and aligned to the higher income tax rate threshold at £50,270 until April 2026.
12. The starting rate for savings limit remains at its current level of £5,000 for 2021/22.
13. The standard Lifetime Allowance for pensions is frozen at £1,073,100 for the tax years 2021/22 to 2025/26.

WINDFALL TAXES

14. The TSC considered the possibility of windfall and wealth taxes which might be charged to excess profits made by those who had benefitted from the pandemic. Having looked at the difficulties inherent in designing and applying these, the TSC considered introducing such taxes would be problematic and could be retrospective.
15. There were no windfall taxes imposed in the Budget nor are there any open consultations on this area. The Government's approach therefore appears to be similar to that suggested by the TSC.

CAPITAL TAXES

16. Based on evidence given to the Committee, it concluded that there is a compelling case for the reform of capital taxes.
17. To date there have been no government announcements suggesting that reform of capital taxes is imminent, although the Government has supported some reviews of taxes in this area. For example, in July 2020 the Chancellor asked the Office of Tax Simplification (OTS) to review Capital Gains Tax. The OTS report was published in November 2020 but, to date, there has been no formal Government response to the OTS report. The OTS also undertook a review of Inheritance Tax, which was published in May 2019. To date there has been no formal Government response.

SUPPORT FOR BUSINESS

Capital allowances

Annual Investment Allowance (AIA)

18. The Budget announced that legislation will be introduced in Finance Bill 2021 to maintain the current temporary £1,000,000 AIA limit for one further year from 1 January 2021. This aligns with the TSC recommendation, although it does not go so far as to make the increase permanent, as the committee had suggested.
19. In the short term this provides welcome certainty to those small and medium sized businesses which can afford to invest at this level.

130% Super deduction for capital allowances

20. The new 130% first-year capital allowance for qualifying plant and machinery and 50% first-year allowance for qualifying special rate assets gives further support to investment by companies. This follows the same policy direction recommended by the TSC in relation to extending the AIA.

Extended 3 year carry back for trading loss relief

21. The TSC recommend that the Government should do as its predecessors have done during previous crises and support businesses by introducing a temporary three-year loss carry-back for trading losses in both incorporated and unincorporated businesses. This would help those businesses which have shown that they are previously profitable recover from losses suffered during the pandemic.
22. This proposal has been accepted and is currently being enacted in the 2021 Finance Bill. It is hoped that the cashflow generated by this will provide a much needed cash injection to help businesses recover and then also to grow and invest for the future.

Business rates

23. Business rates remain a problem for many businesses. The TSC believes that the business rates system needs reform and welcomes the review currently being undertaken by the Government.

24. The Tax Day announcements included the Business rates review: interim report in which several policy statements were made. These gave clarity and certainty to businesses and local authorities regarding the level of the business rates holiday for businesses in the retail, hospitality and leisure sectors and Local Authority funding through 2021-22.
25. The final report of the Fundamental Review is expected to follow in Autumn 2021. This is expected to set out the Government's priorities for reform and its longer-term vision for the business rates system.
26. That the government remains committed to improving the tax system for businesses, reforming the administration of business rates for the 21st century, and putting the tax on a more sustainable footing for the future is in line with the review the TSC is seeking. What remains unclear is the extent to which any final recommendations will align with the TSC's position.

Digital services tax

27. The TSC supports the principle of the Digital Services Tax (DST) as a stepping-stone towards capturing some of the profits made by digital service providers. The UK DST is calculated by reference to revenues that are attributable to UK users (see s41 FA 2020) and has been in effect since 1 April 2020.
28. The TSC does however strongly approve of the Government's approach to seeking international agreement through the OECD on the taxation of companies providing digital services and, if and when international agreement is reached, maintaining its commitment to abolishing the DST in favour of any such agreed approach to taxing rights.
29. In its report it asks for an annual report from the government on progress made in this area, to include the yield and commentary on the effects of such a tax on the digital companies themselves. Section 71 FA 2020 provides that a review must be undertaken before the end of 2025.
30. Although the UK has not made a public announcement, recent proposals by the Biden Administration to break the deadlock in OECD tax talks have been cautiously welcomed by several key European states some of which have also introduced their own versions of DST.

TAX DAY CONSULTATIONS

31. The inception of a Tax Day separate from Budget Day was welcomed by many with an interest in evolving tax policy.

https://www.gov.uk/government/publications/tax-policies-and-consultations-spring-2021/tax-policies-and-consultations-spring-2021#annex-a

32. In particular, we make specific comment on the following in the context of the TSC report.

Tax strategy

33. The TSC recommends the government should publish a draft tax strategy, a road map setting out what it wants to achieve from the tax system and identifying high level objectives. It proposes that the strategy should include principles for:
    - The role of the tax system in meeting fiscal goals
    - Securing a neutral tax system which treats similar activities in similar ways, including fair taxation of different structures of work
    - Ensuring that taxation is progressive and fair to future generations
    - Meeting climate change goals for net zero and other environmental objectives whilst giving consideration to those who are on lower incomes
    - Ensuring growth of business and employment, including a new business tax roadmap to provide investment certainty for business and a five to ten-year strategy for corporation tax rates
    - Reducing the tax gap

- Indirect taxes such as VAT which were previously covered by EU law which no longer applies
- Reducing compliance costs, especially through appropriate tax simplification.

34. The two calls for evidence, *The tax administration framework: Supporting a 21st century tax system* and *Timely payment*, make some headway towards this roadmap, building on the corporate report published in July 2020, Building a trusted, modern tax administration system, which sets out the government's 10 year strategy for reform.

35. While the topics on the TSC list are undoubtedly desirable, and indeed many feature regularly in HMRC's strategy papers already, for example reducing the tax gap and simplification, most will take years to achieve and will need support from more than one Parliament.

36. Although Making Tax Digital for corporation tax sought views on the digitalisation of record keeping and quarterly tax reporting by companies, none of this addresses the underlying certainty on effective rather than headline corporate tax rates for example, that the TSC was hoping for.

37. At Budget 2021, the government committed to maintain the headline corporation tax rate at 19% until April 2023, with a statement that it will then increase to 25% for larger companies. This prospective change is included in the 2021 Finance Bill.

Taxation of work

38. The TSC report considers the ongoing difficulty of the taxation of work and notes that reform of the tax treatment of the employed and self-employed is long overdue. It concludes however that increases in NIC may be particularly difficult currently given the probable impact on jobs, at a time when increasing employment is likely to remain an economic priority.

39. The TSC comments

> While we have not heard enough evidence to recommend a wholescale merger of national insurance contributions and income tax, the Government should consider **what can be done to remove the distortions gradually through time.**

40. With the exception of the confirmation of extension of the off-payroll working rules for the public sector to large and medium sized companies, there was no further indication of further changes to tax in this area in either the Budget or Tax Day announcements.

41. It seems that both the Government and the TSC are in agreement that there is a problem in the area of the taxation of work, but there is as yet no consensus about how the problem should be tackled.