



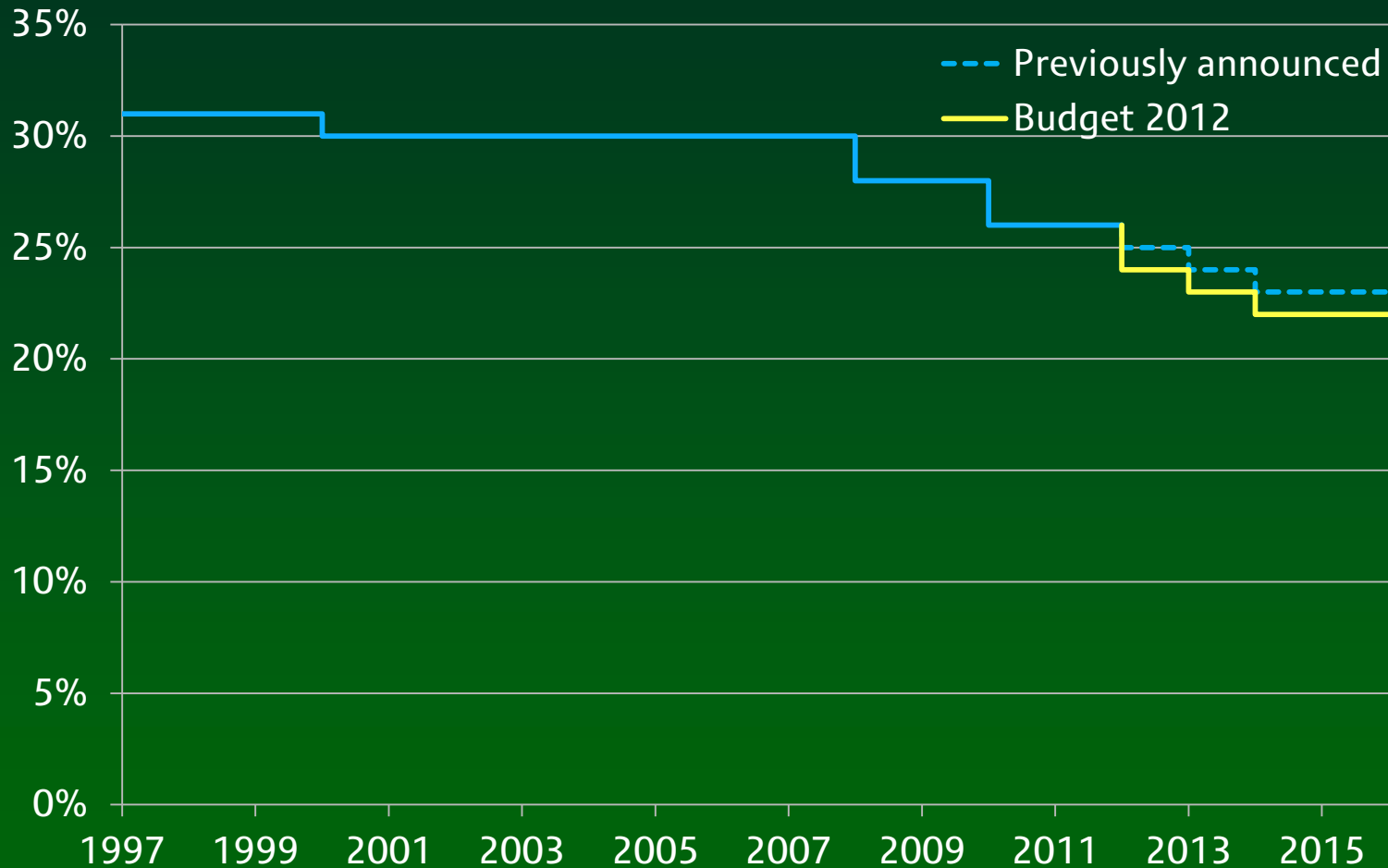
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# Business tax, stamp duty and anti-avoidance

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# Main corporation tax rate



# Tax reforms for particular sectors

- Bank levy to increase from 0.088% to 0.105% from January 2013
  - Raises £0.4bn
- Greater certainty in North Sea taxation
  - Raises £0.4bn by encouraging investment
- Taxing UK gamblers rather than those gambling with UK firms
  - Raises £0.2bn
- Tax breaks for more 'creative' industries
  - Costs £40m
- Reforms to small business taxation
  - Following Office of Tax Simplification recommendations

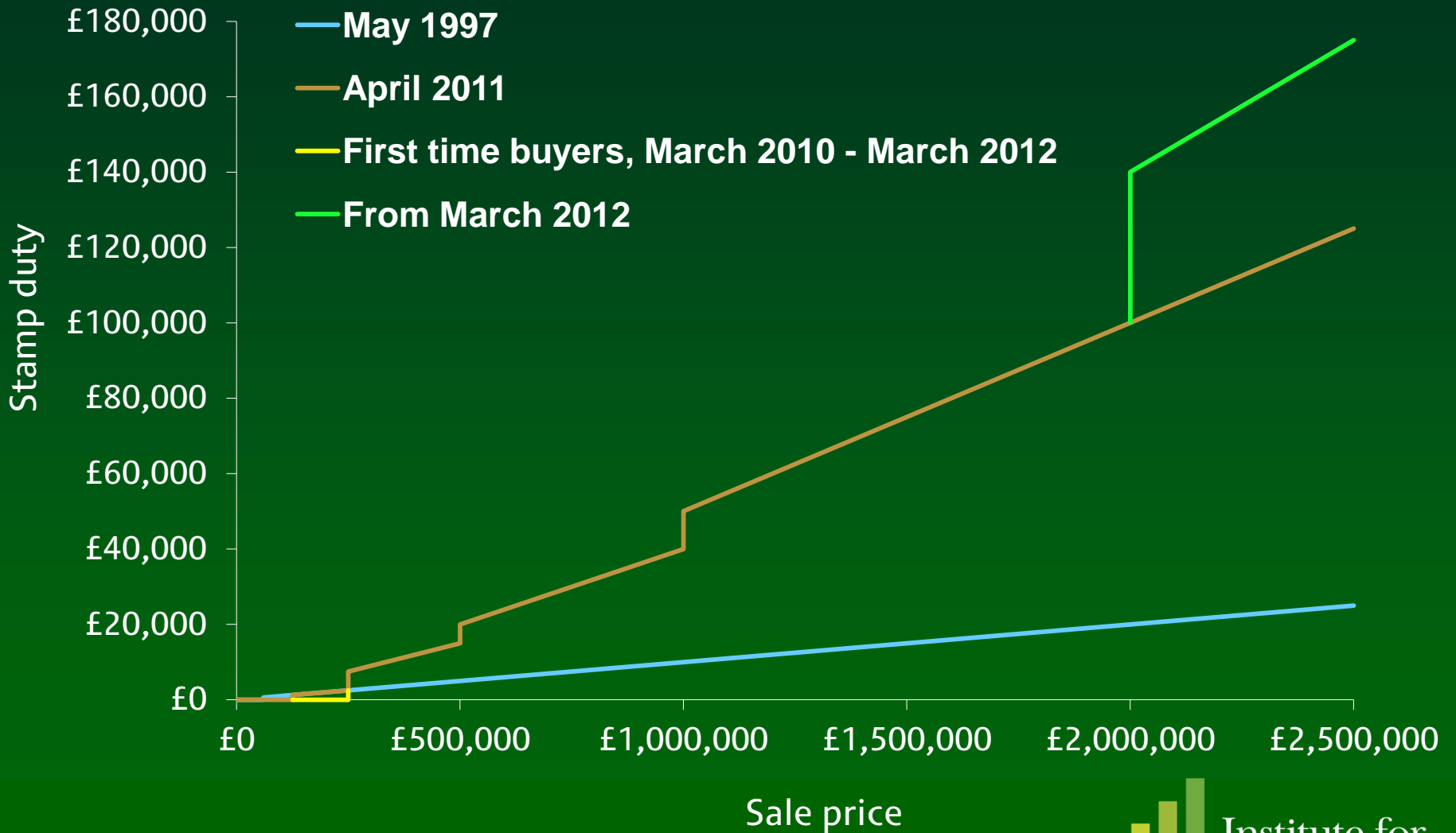


# Stamp duty land tax

- New 7% SDLT rate for residential property transactions above £2m
  - Was 5% on all above £1m; tax rise at least £40,000 per affected sale

# Stamp duty land tax

## Residential properties



# Stamp duty land tax

- New 7% SDLT rate for residential property transactions above £2m
  - Was 5% on all above £1m; tax rise at least £40,000 per affected sale
- Currently around 3,000 such transactions per year
- Would raise £235m in 2012-13 with no behavioural response
  - Implying average tax rise of roughly £80,000 per transaction
  - Average sale affected roughly £4m, with total bill roughly £270,000
- Government expects £150m after behavioural response...
  - Fewer transactions
  - Lower prices (especially reduced to just under threshold)
  - Increased avoidance
- ...rising to £300m in 2016-17
  - Strong growth in number and price of transactions above £2m



# Stamp duty land tax

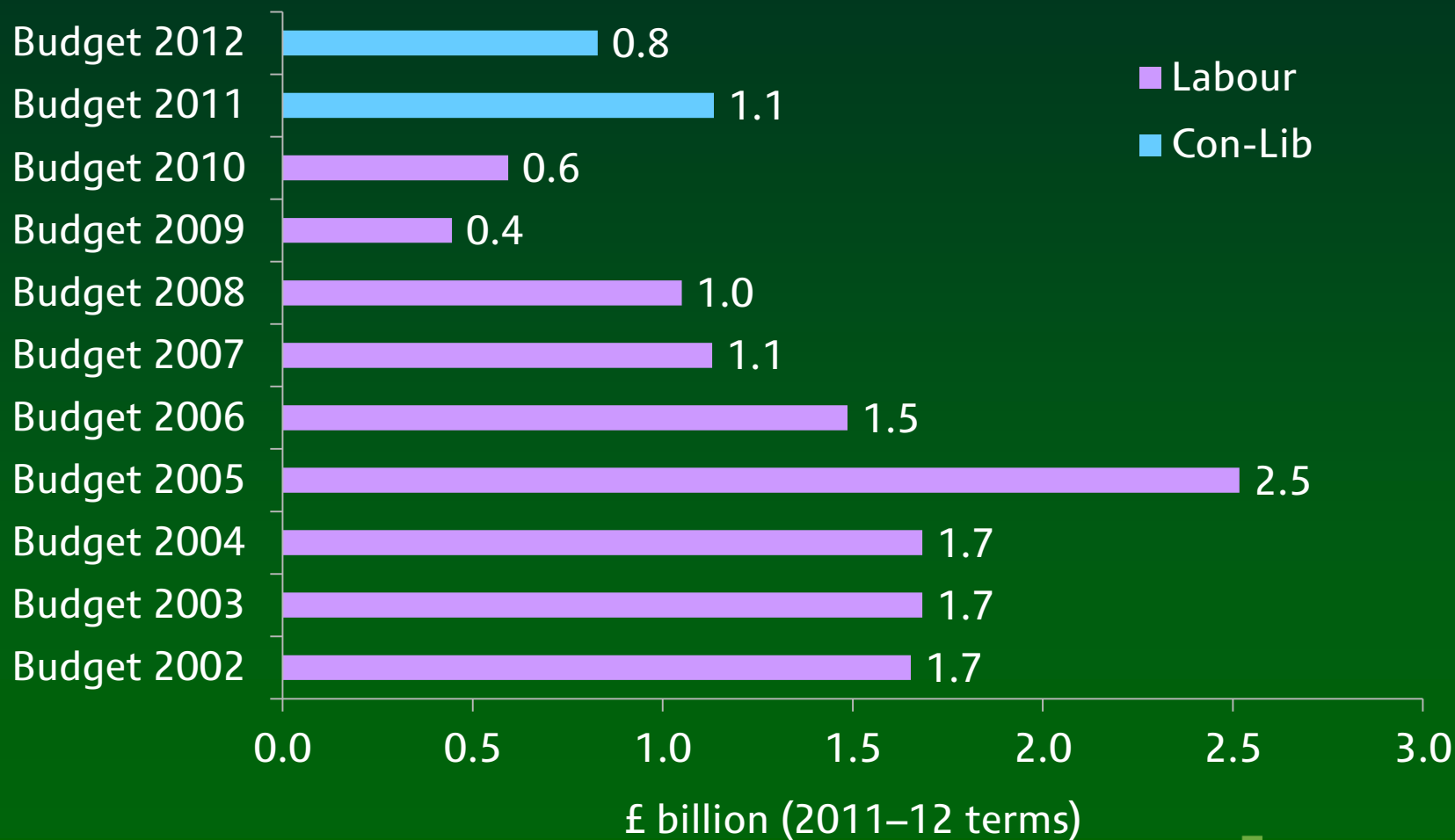
- Most of loss likely to be passed on to existing owners as prices fall
- Stamp duty is exceptionally damaging, so increases unwelcome
  - Why impose heavier tax on properties that change hands more often?
  - Properties should be owned by the people who value them most
- £1 higher price can mean £40,000 higher bill
  - Why is this desirable?
  - Big incentive to keep transactions below £2m (or avoid tax completely)
- Practical advantages over an annual ‘mansion tax’?
  1. Avoids need for valuation of properties
    - BUT revaluation for council tax purposes long overdue anyway
  2. Avoids need to collect annually from cash-poor mansion owners
    - BUT mansion tax could be deferred until sale or death

# Stamp duty land tax (and CGT) avoidance

- Very heavy taxation of £2m+ residential properties bought through offshore companies or investment vehicles
  - 15% stamp duty on properties purchased this way in future
  - £15,000 to £140,000 annual charge on properties already held this way
  - Prevent the activity rather than raise significant revenue (just £65m)
- Consultation on levying CGT on all residential property held through offshore vehicles could be more significant in long run
- Will these measures close off this form of stamp duty avoidance?
- Will other forms of avoidance be used?
- 7% stamp duty rate provides a big incentive to avoid the tax



# Forecast revenue from anti-avoidance measures



# A General Anti-Avoidance Rule

- Broadly, a single rule to deny benefit from any arrangement to reduce tax contrary to the intention of Parliament
- Budget accepted recommendation from Graham Aaronson QC
- Not a panacea: What was the intention of Parliament?
  - Either drafted broadly to disallow wide range of activity...
    - Leaves uncertainty as to what is ‘reasonable’ tax planning
  - ...or drafted narrowly to disallow only ‘clearly highly abusive’ schemes
    - Doesn’t address the difficult grey areas
- Effect will depend on how the courts interpret it
- Unlikely to markedly reduce need for specific anti-avoidance rules
  - Will government really risk relying on the courts’ interpretation?
  - Other countries have not seen a reduction

## Other tax increases

- Increase in taxation of business cars
  - Raises £0.6bn
- Income tax reliefs capped at higher of £50,000 or 25% of income
  - Raises £0.3bn
- VAT levied on some currently zero-rated expenditure
  - Raises £0.3bn

# Conclusions

- Corporation tax cut will increase the UK's competitiveness
- Stamp duty reform is a huge hit on a very small number of people
  - Imposes less aggregate pain on the rich than the 50% income tax rate
  - And may yield more revenue
  - But an exceptionally badly designed tax
  - Housing tax reform could raise same revenue much more efficiently