Business tax, stamp duty and anti-avoidance

Stuart Adam
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

May 1997
April 2011
First time buyers, March 2010 - March 2012
From March 2012
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

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Notes: Final year estimate from each Budget deflated by nominal GDP to 2011–12. Each Budget includes measures announced since previous Budget.
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