Patching up business taxes

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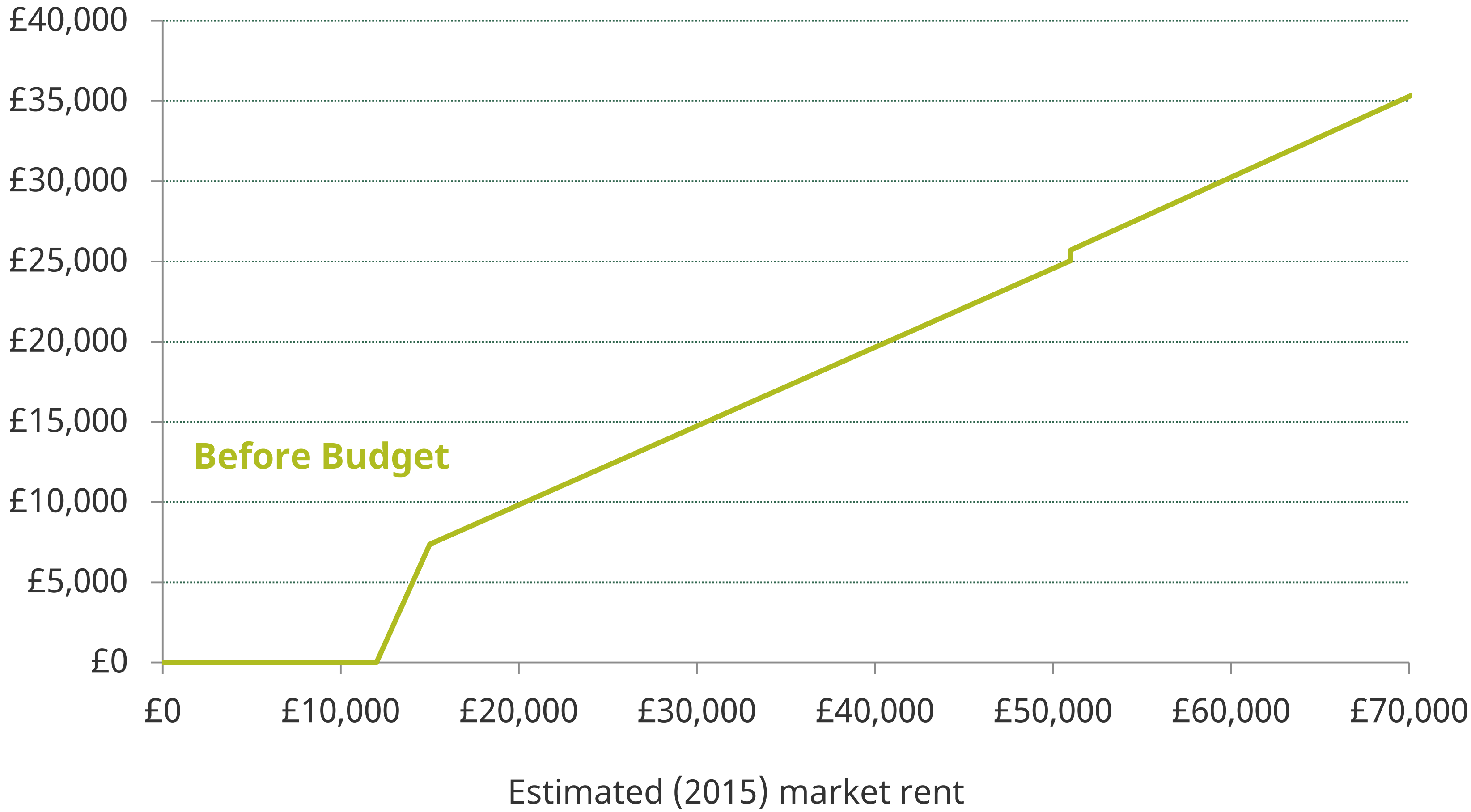
Business rates relief for retail in England

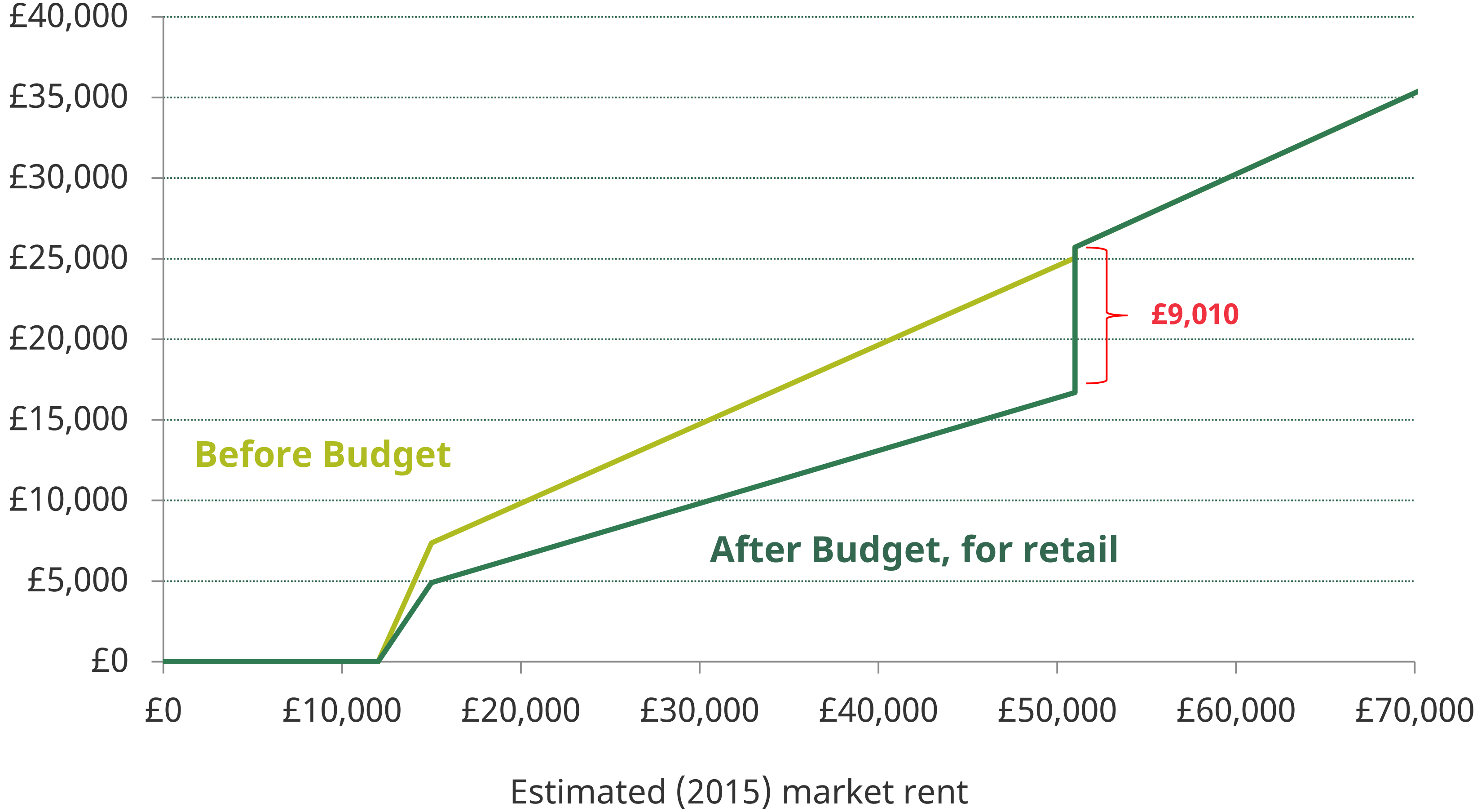
Tax liability, 2019–20



Business rates relief for retail

Institute for Fiscal Studies

Tax liability in England, 2019–20



Relief for retail isn't a long run fix

Most retailers will get a cut in their business rates bill

- 2019–20 & 2020–21 bills reduced by ⅓ for 'retail' properties with (2015) rental value <£51,000
- Costs £900m over the 2 years

Will help retailers in the short run

- But if similar policy expected to persist long-term, landlords likely to get at least some of benefit (through higher rents)

What's the long term plan for business rates?

- Will pressure on high street retailers be less in 2 years' time?
- Business rates combines one of best taxes (on land values) and one of worst tax (on business buildings) – why not just get rid of the latter?

New tax on tech giants

Corporation tax – levied on *profits* generated from UK activities

- Main rate 19% (17% from 2020)
- Long running concerns about profit shifting
- Newer concerns that profit allocation doesn't reflect 'user' created value

***Digital Services Tax* – levied at 2% on *revenues* from certain activities of certain digital businesses from 2020**

- Apply to search engines, social media platforms and online marketplaces
  - ... that are linked to participation of UK users
  - ... if global revenue from in-scope activity is above £500m p.a.
  - ... with provisions for reducing rate for business with low profit margins
- Forecast to raise £400m in 2020–21 (highly uncertain)

Digital Services Tax dodges big questions

DST is not '*updating our tax system for the digital age*'

- It will raise some more from the tech giants
- But leaves allocation rules unchanged (just adds new tax on top)
- Turnover taxes disadvantage high cost, high revenue business models

Big Q remains: how should we allocate MNEs' profits to different countries?

- Could allocate profits based on location of users, or consumers, or production
  - Identifying the value and location of users is particularly difficult
- Getting international agreement is preferable but hard
  - A change in allocation means some countries lose
- Should at least be clear about which problems we're trying to solve

Higher capital allowances

Capital allowances affect taxable profit & investment incentives

- Allowances reduced in recent years; often less generous than other countries

Temporary increase in Annual Investment Allowance

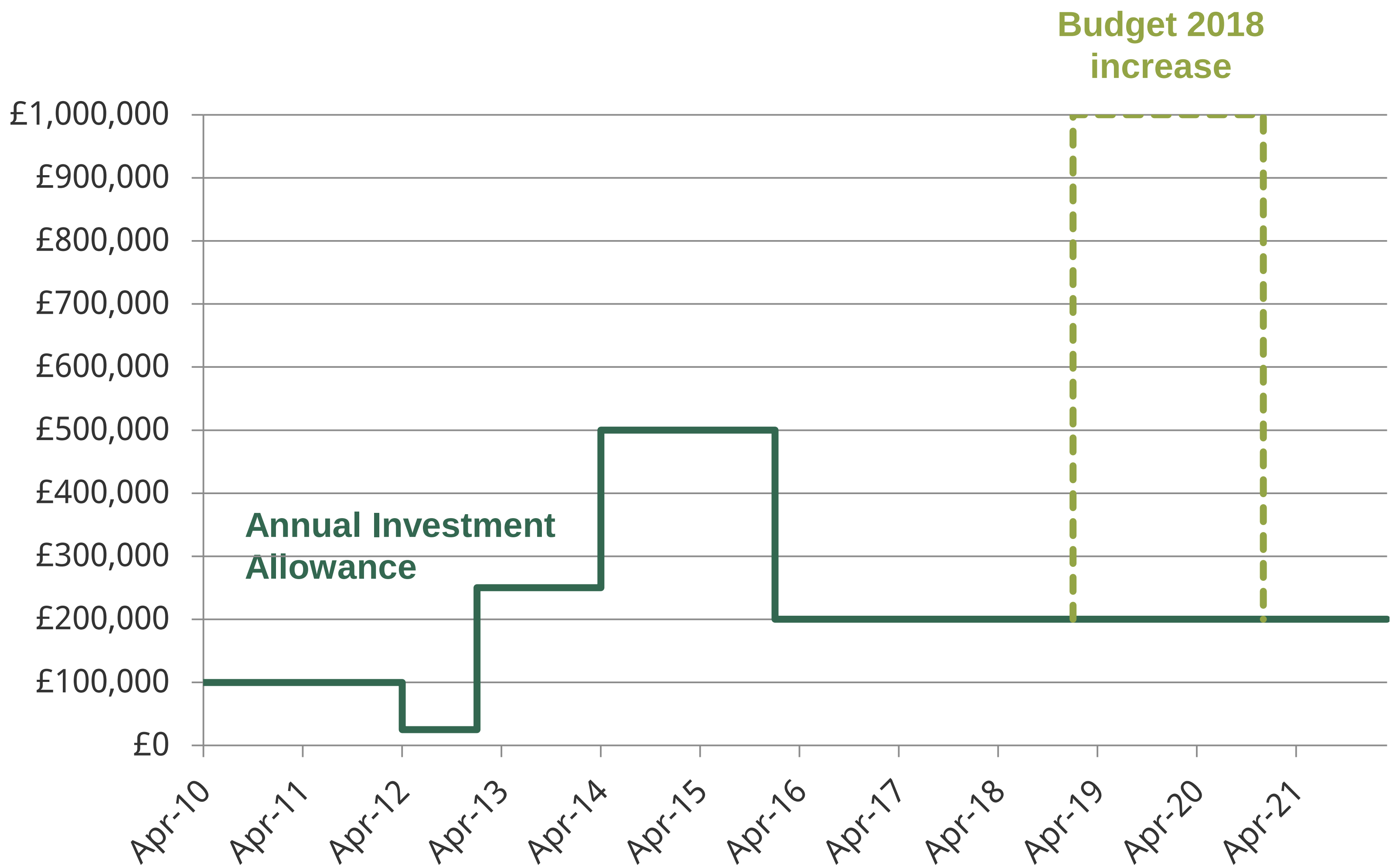
- 100% relief for £1m (rather than £200k) of investment Jan 2019–Dec 2020
  - incentivises some firms to bring investment forward (though most invest less than current AIA); costs £600m in 2019-20; raises £155m in 2023-24

Buildings & goodwill to get allowances again

- Special rate for ‘integral features &long life assets’ reduced from 8% to 6% from April 2019: raises £305m in 2023-24
- New 2% Structures & Buildings allowance post Oct 2018: costs £585m in 2023-24
- Partially reinstate relief for goodwill when acquiring business with eligible IP

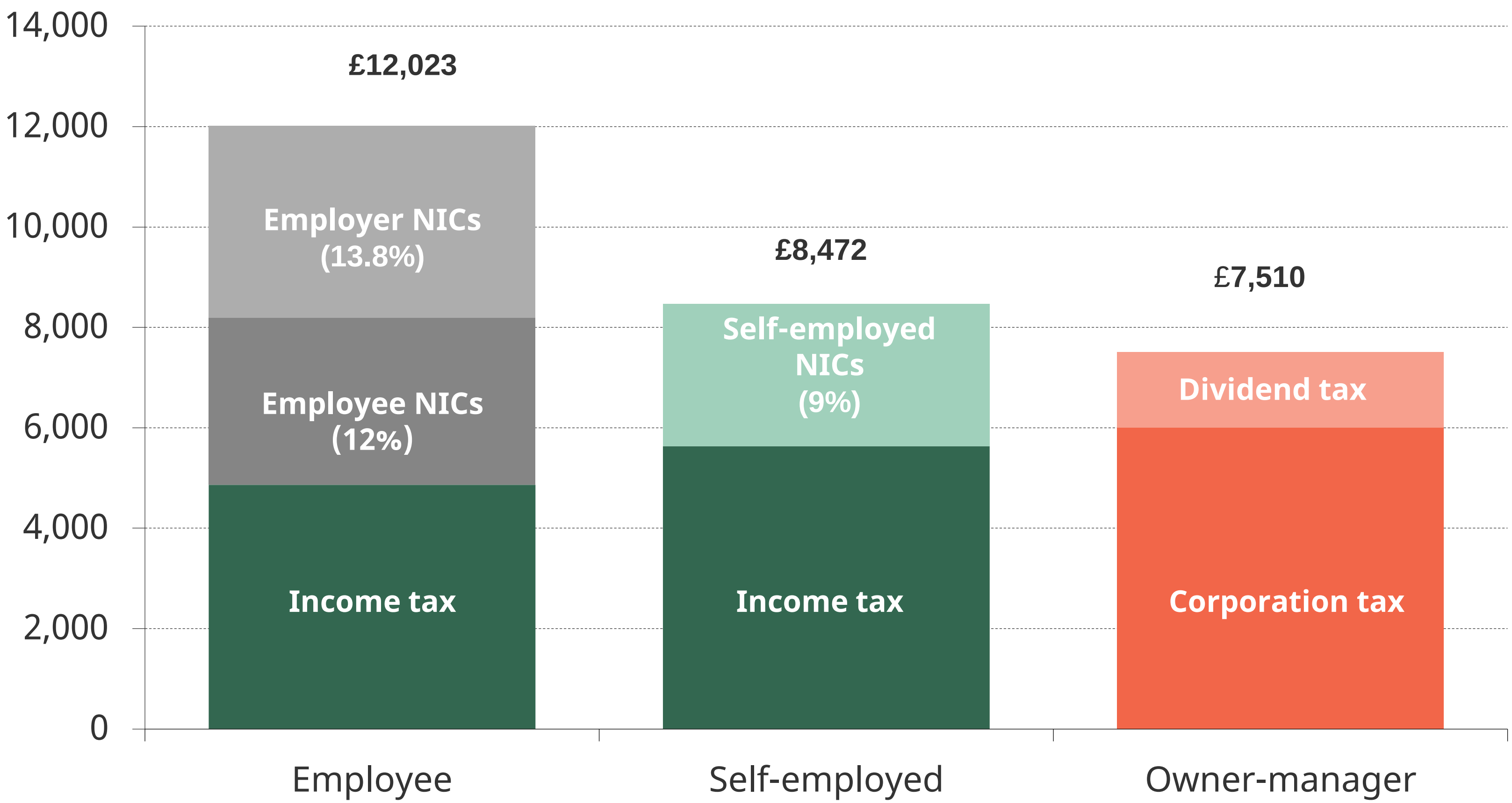
Tax base still not neutral – some investments subsidised, some taxed

Stability in tax is important



The tax system incentivises operating through a business

Tax due on a job generating £40,000, 2017–18



Giving anti-avoidance rules more bite

'Off-payroll working' (IR35) rules - tax some company owners as employees

- April 2017– shift burden of determining status to engagers in public sector

From April 2020 private sector engagers responsible for determining status

- Makes engager liable for any unpaid tax (small organisations exempt)
- Raises £1.2bn in 2020-21; less in future if jobs are changed to fall outside IR35

Enforcement measure moves effective boundaries in the tax system

- Treats private sector engagers like those in public sector
- Moves where boundary between employees and owner-managers lies
- Adds a new boundary between small & big private sector engagers

Still no good reason to have the boundary in the first place

- Can't assess whether enough/too many people affected without knowing who should be getting lower taxes

Summary – some sticking plasters

New Digital Services Tax

- Gets a bit more revenue out of tech giants; raises £440m p.a.
- Not grappling with rules on profit allocation

Business rates relief for small retailers

- Short run help for most retailers; costs one-off £900m over 2 years
- Not fixing business rates system

Increase in generosity of capital allowances

- Makes sense to give deductions for investment
- But still have a tax base full of distortions

Change in how anti-avoidance (IR35) rules operate

- More 'personal services companies' will be taxed as employees
- But still not a clear which business owners should get lower taxes