Business tax road map

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Corporation tax - BEPS actions

- Extend scope of hybrid mismatch rules
- Changes to withholding tax on royalties
- Implement new Patent Box approach
- Incorporate new Transfer Pricing Guidelines
- Country-by-country reporting
- Ongoing work on a multilateral instrument
- Restrict interest deductibility
Corporation tax - restrict interest deductibility

- Anti-avoidance rule involves a trade-off between preventing avoidance and distorting genuine activity
- From Apr 2017 limit interest deductions to 30% of EBITDA (taxable earnings)
- Reduced effect of rule on:
  - domestic UK groups (removed via group rule)
  - public benefit infrastructure (exemption)
  - firms with net interest below £2mn (de minimis threshold)
- More stringent rule than the current UK provision
  - raise: £1.2bn 2018-19, £1bn 2019-20
  - contrast with position in 2010 roadmap:

  ‘UK’s current interest rules, which do not significantly restrict relief for interest, are considered by businesses as a competitive advantage’
Corporation tax - revenue shifts & rate cut

- Shift timing of payments to bring in £6bn in 2019-20
- Rate cut further to 17%; costs ~£2 billion
Corporation tax rates in G20

- UK, 2020-21
- UK, 2017-18
- UK, 2015-16
- Saudi Arabia
- Russia
- Turkey
- EU
- South Korea
- Indonesia
- China
- Canada
- Italy
- South Africa
- Mexico
- Australia
- Germany
- Japan
- India
- Brazil
- France
- Argentina
- US
Corporation tax - restrict loss offsets

- Good tax system would give full loss offsets
  - asymmetric treatment discourages risk taking
- From Apr 2017 losses can be offset against other income streams or other companies within a group - a good move that adds flexibility
- Also restrict carried forward loss offsets to 50% profits, if profits above £5 million – not a good move
- Raises: £415m 2018-19, £295m 2019-20, largely just brings revenue forward
- Further restrict banks’ pre-2015 losses
  - raises: £465m 2018-19, £375m 2019-20, largely just brings revenue forward
North Sea oil & gas

- Petroleum revenue tax to 0%
  - kept in place to allow decommissioning costs
- Supplementary charge from 20% to 10%
- Both backdated to 1 January 2016
  - cost: ~£0.2bn a year from 2016 – 17
North Sea oil & gas revenues

Oil and gas revenues, £billion

Budget 2015 forecast
Budget 2016 forecast

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Business rates

- Tax on rental value of non-residential properties
- Policy change ‘to ensure … system remains fit for purpose in the twenty-first century’
100% Small Business Rate Relief made permanent, threshold increased takes ~1/3 properties out of tax

Threshold for higher rate increased takes ~1/6 properties out of higher rate

Cost: £1.4bn 2019-20
Business Rates

• Move indexation from RPI to CPI from Apr 2020
  – not clear why index to inflation, but RPI discredited
  – revenues will increase less quickly

• Consult on more frequent revaluations

• Business rates revenues retained by local authorities by 2020
  – plan to compensate for Budget 2016 policy changes
  – in future, policy change at central government will affect revenue streams of local authorities

• Doesn’t deal with main concern: levied on value of business property & therefore distort decisions
Stamp duty on non-residential property

Also new 2% rate for leasehold rent transactions if NPV > £5m

Overall: 90% of transactions pay the same or SDLT, 9% will pay more

Raise ~£0.5bn
Summary

• For large business
  – cut to rate
  – BEPS actions, inc interest deductibility

• For ‘small’ business
  – cut to rate
  – Business rates, include SBRR for those occupying low rental value property

• Business road map spans large number of areas but lacks vision
  – continued move towards low rates plus anti-avoidance
  – lots of small policies rather than discussion of design or ideas for substantial improvements