Patching up business taxes

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Business rates relief for retail in England

Tax liability, 2019–20

Estimated (2015) market rent

Before Budget
Business rates relief for retail

Tax liability in England, 2019–20

Before Budget

After Budget, for retail

Estimated (2015) market rent

£0  £10,000  £20,000  £30,000  £40,000  £50,000  £60,000  £70,000

£0  £5,000  £10,000  £15,000  £20,000  £25,000  £30,000  £35,000  £40,000  £45,000  £50,000  £55,000  £60,000  £65,000  £70,000

£9,010
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 \( \frac{1}{3} \) 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

Annual Investment Allowance

Budget 2018 increase
The tax system incentivises operating through a business

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

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<th>Owner-manager</th>
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<td>Self-employed NICs</td>
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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