



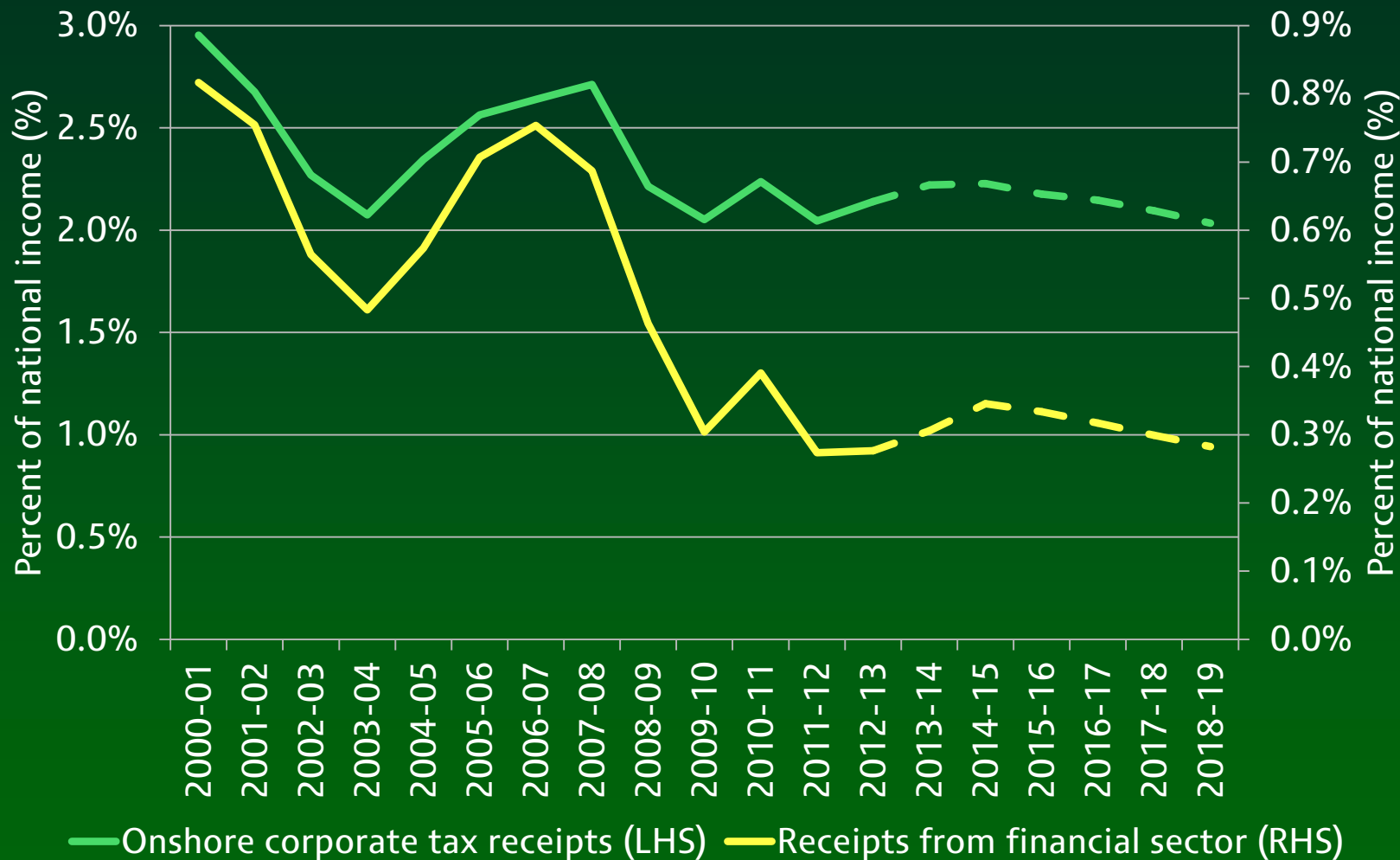
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Business taxes

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Corporation tax revenues



Capped loss offset for banks

- At present: trading losses can be carried forward indefinitely and offset against any trading profits
- From 1 April 2015 proportion of banks' annual taxable profit that can be offset with prior losses will be capped at 50%
- Adds uncertainty about relief of future losses
- Revenue: £3.5bn over forecast period
- Works to bring revenue forward, not to increase revenue overall

Diverted profits tax ('Google tax')

- New tax of 25% on *diverted profits* from 1 April 2015
 - legislation to be introduced next week
- Idea: identify cases where companies have economic substance in the UK, but profits are being *artificially diverted* offshore
 - need to define artificial diversion & how much should be taxed in UK
 - long running difficulties with allocating profits
- Fits with the Base Erosion and Profit Shifting (BEPS) agenda
 - focus on aligning taxing rights with economic substance
 - layering another principle onto international tax rules and adds complexity
- Revenue: £0.3bn per year

Supplementary charge & fair fuel stabiliser

- Budget 2011 - fair fuel stabiliser introduced
 - link supplementary charge and fuel duty escalator to oil prices
 - supplementary charge increased from 20% to 32%
 - plan: if oil price falls below a trigger supplementary charge moves back towards 20% and
 - fuel duty price rise would be revised to increase by RPI plus 1 penny
- Oil price has been moving towards trigger
 - cut in the supplementary charge to 30% from 1 January 2015
 - fair fuel stabiliser scrapped - no increase in fuel duty
- Poorly designed policy – so welcome removal of FFS
- But announcing a policy, and then scrapping it when meeting policy conditions looks likely is a bad way to make policy



Devolving corporation taxation to NI

- Devolution of CT to Northern Ireland agreed in principle
 - 3 years of consultation but no details on how will work or whether base will also be devolved
- Corporation tax is not a good candidate for devolution
 - introduced profit shifting and tax competition within the UK
 - adds complexity
 - arguments that NI has special circumstances

Devolving corporation taxation to NI

- How to determine how much profit is earned in NI?
 - uncertainty about CT raised in NI: £450m (HMRC), £650m (NI govt)
 - separate accounting or apportion the base using a formula
- How to adjust the block grant from Treasury to NI?
 - account for the effect of rate changes on revenues in the rest of the UK, including via profit-shifting and tax motivated incorporation
- Earlier consultation documents suggests complicated method
 - separate accounting (with transfer pricing etc.)
 - if rate changed, estimate ‘mechanical’ revenue change, adjust for the effects of profit shifting, investment and other behavioural changes and change block grant accordingly

Business Rates

- Review of the structure of business rates by Budget 2016
 - ideally should move towards a Land Value Tax
 - other options in chapter 11 IFS Green Budget 2014
- 1. ‘Temporary’ doubling Small Business Rate Relief
 - AS 2014 extends temporary doubling to 1 April 2015

'Temporary' doubling of small business rate relief



Business rates

1. 'Temporary' doubling small business rate relief
 - AS 2014 extends temporary doubling to 1 April 2016
2. Temporary relief for retail
 - Budget 2014: £1,000 discount for retail properties with a rateable value \leq £50,000 for 2014–15 & 2016–16
 - AS 2014 : additional £500 discount for 2015-16.
3. 2015-16 increase in business rates multiplier capped at 2%
 - usually uprated in RPI
 - giveaway to property owners in the long run

Summary

- Capped loss offsets for banks – brings forward revenue but also adds uncertainty
- Diverted profits tax – is aiming to reduce multinational avoidance, but will be complex
- Reduction in the supplementary charge and scrapping of fair fuel stabiliser – poor design and policy making
- Devolution of corporation tax to Northern Ireland – may introduce tax competition and complexity
- Continued business rates reliefs – too much tinkering

