HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon Mel Stride MP
Chair of the Treasury Select Committee
House of Commons
London
SW1A 0AA

2 December 2020

Dear Mel

Thank you for your letter of 24 November on the tax policymaking process.

In 2017 the Government updated the tax policymaking framework, to reflect a cycle with a single fiscal event; in particular, a cycle which envisaged an autumn Budget and a spring statement.

As the Government made clear at the time, this framework is designed to allow for flexibility to respond to exceptional circumstances. Since then, there have been cases where the Government has made tax policy announcements outside fiscal events; for example, the increase to the National Insurance Primary Threshold in January 2020 following the General Election in 2019, and the delay to abolishing the Class 2 NICs rate announced in November 2017.

The extraordinary economic context created by COVID-19 has meant that the Government has needed to be flexible in the timing of its interventions in order to support the economy in a timely way, including outside formal fiscal events. In the circumstances, it would not have been appropriate to have waited for a formal fiscal event, with associated forecast, to institute the support for businesses and households that was required to combat the pandemic.

Where possible, the Government has sought to uphold the spirit of the principles of predictability, stability, simplicity and transparency, even when policy announcements are not made through the normal cycle. For example, the Government has responded to concerns about implementation dates from stakeholders, by actions such as the delay to the commencement date for the IR35 off-payroll working rules earlier this year. Furthermore, the Government has also extended the consultation deadlines for several tax policy documents announced at Budget earlier this year, in order to provide respondents with more time to engage with the substance of the proposals. As a result of listening to stakeholders on these issues, the Government had to publish further documents outside the usual summer timetable in order to meet its commitments on enabling technical consultation of draft legislation. The publication of the consultation on Making Tax Digital (MTD) for corporation tax (CT), which you mention in your letter, met the commitment made in July to consult on the design of MTD for CT in the autumn. This provides stakeholders with the opportunity to engage fully on the proposals and prepare for the changes ahead of implementation.

On the specific matter you raise, I am sorry that the Government was unable to provide advance notice to Parliament for the November announcement. We will continue to try to ensure that Parliament has prior notice and opportunity for relevant scrutiny of future announcements.

As regards the VAT Retail Export Scheme (RES) and airside tax-free sales, my colleague the Exchequer Secretary to the Treasury said in her letter of 6 November that announcements of this nature would usually be made at a fiscal event with the accompanying costings. In fact, however, the Government announced these changes on 11 September in order to give individuals and businesses time to prepare ahead of the changes coming into effect from 1 January 2021.

In response to your original request, the Exchequer Secretary also summarised the cost analysis which HM Treasury had released. She highlighted that the independent Office for Budget Responsibility (OBR) would set out their assessment of the fiscal impact of the withdrawal at the forecast on 25 November, as has now been done. The OBR's assessment supports HM Treasury's analysis that the withdrawal of the VAT RES and airside tax-free sales will raise a significant amount of revenue. Specifically:

- Factoring in a higher-than-usual elasticity to account for spending on luxury goods, the OBR estimate that the change will result in a significant direct Exchequer saving of about £400 million per year, once passenger numbers recover from the impacts of COVID-19.
- This includes an assumption that approximately 20,000–30,000 fewer tourists visit Great Britain a year and that the revenue is reduced by about a quarter from changes in behaviour. This contrasts with the millions of visitors fewer that others have claimed.
- For airside tax-free sales, the OBR estimate that the withdrawal will raise £170 million per year for the Exchequer, after behavioural responses are taken into account and passenger numbers recover from the impacts of COVID-19.

The OBR also looked at this package in the round when assessing the indirect impact on the economy, including the effects of extending duty-free sales and the substantial support provided to the economy and retail industry.

I have enclosed the policy costing note, which describes the general method used on pages 42 and 43, and the OBR's commentary, which contains specific references to the measures on page 183.

HMRC will also publish a tax information and impact note (TIIN) for these measures shortly. The TIIN will provide an explanation of the policy objectives, and set out in summary form the impacts relevant to each tax measure covered in the statutory instrument. In this particular case, the specific legislation, and therefore the TIIN, will include the withdrawal of the VAT RES and the extension of duty-free and personal allowances. The statutory instrument will be laid, and the TIIN published, on 3 December.

I look forward to continuing to work together with you and your Committee.

As ever,

Jesse

RT HON JESSE NORMAN MP