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Treasury Committee

Tax Reliefs

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Contents

Summary

Our tax system is too complicated.

Tax reliefs reduce the amount of tax payable by a person or company if they meet certain conditions. There are over 1,000 tax reliefs in force in the UK tax system. These reliefs reduce tax revenues significantly, but less than half have official published costings. Ongoing scrutiny of their effectiveness is inadequate.

Tax reliefs make the system more complex for taxpayers and open up opportunities for abuse. Governments tend to introduce new reliefs, but rarely remove those which are redundant, making these problems progressively worse. This works against the Government's stated aim, which we support, of simplifying the tax system.

To promote a simpler, better value and more effective tax system which is less prone to abuse we recommend:

- a comprehensive and systematic review of existing tax reliefs to look for opportunities for simplification,
- HM Revenue and Customs publish full costings of all tax reliefs,
- greater public consultation on new and existing tax reliefs,
- non-structural tax reliefs, those designed to promote certain behaviour, should be classed as public spending and scrutinised as such, and
- the Government should conduct five-year reviews of individual tax reliefs and commit to remove those reliefs that no longer serve their policy goal or are vulnerable to abuse.

1 Tax reliefs and simplification of the tax system

Background to tax reliefs

1. Tax reliefs reduce the amount of tax payable by a person or company if they meet certain conditions. HM Revenue and Customs (HMRC) defines reliefs as 'structural' or 'non-structural' (or a combination of both):

> Many tax reliefs are integral parts of the tax system. These reliefs have various purposes, such as to define the scope of the tax or calculate income or profits correctly. These are classified as 'structural tax reliefs'.
>
> Other reliefs are actively designed to help or encourage particular types of individuals, activities or products in order to achieve economic or social objectives. These are classified as 'non-structural' tax reliefs.[1]

2. Tax reliefs are an important part of the tax system and a way for Governments to pursue policy objectives. The Association of Accounting Technicians (AAT) told us that "Tax reliefs can secure policymakers key objectives—encouraging investment, creating jobs and ultimately leading to growth."[2] The Octopus Group, a fund management company, said:

> Reliefs are not simply mechanisms for lowering the tax bills of people or businesses, they can be some of the most effective tools in the fiscal arsenal for directing money into businesses in order to generate growth, foster innovation and widen opportunities for employment.[3]

This view was supported by the British Film Institute (BFI), who told us in written evidence that tax reliefs have "played a key role in the continued growth of the screen industries". They noted that the "tax relief-supported screen sectors" had in 2019 delivered £13.48bn in gross value added for the UK economy.[4]

3. There are a large number of tax reliefs. Jane Whittaker, Director of Knowledge, Analysis and Intelligence at HMRC, told us that there are 1,180 tax reliefs currently in force, of which 841 are structural and 339 are non-structural.[5] The number has tended to grow over time: In 2010 the Office of Tax Simplification (OTS) reported that there were 1,042 reliefs.[6] The Institute for Government (IfG), a think tank, told us that "Successive Chancellors have introduced new, small tax breaks to pad out budgets, while it has been far less common for them to be removed."[7]

1 HM Revenue and Customs, Non-structural tax relief statistics 25 May 2023, para 2.4
2 Association of Accounting Technicians, TR0006, para 1.2
3 Octopus Group, TR0040, para 3
4 British Film Institute, TR0020, paras, 1, 5
5 Q189 [Ms J Whittaker]
6 Office of Tax Simplification, List of Tax Reliefs, November 2010, p 1
7 Institute for Government, TR0011, para 4

4. Tax policy, including on tax reliefs, is the joint responsibility of HM Treasury and HMRC under the "policy partnership". In this partnership, HM Treasury leads on strategy and policy development, while HMRC leads on policy maintenance and implementation.[8] This report covers both the development of new tax relief policies and the administration of the existing body of tax reliefs.

Tax reliefs and simplification

5. We have previously concluded that the tax system has become overly complex.[9] Jonathan Athow, Director General for Customer Strategy and Tax Design at HMRC, agreed that the tax system has become more complex. However, he said there were a number of reasons for the increasing complexity. One was that the tax system has more aims than it had in the past, such as supporting economic growth or "other public policy aims".[10] He stressed that some reliefs are "designed to remove complexity from the system". He gave the example of the Personal Savings Allowance relief, which affords taxpayers an amount of savings income that is non-taxable. Mr Athow said that this relief "reduces complexity in the system because those taxpayers no longer have to interact with [HMRC]". [11]

6. Other evidence pointed to tax reliefs forming an important factor of growing complexity. For example, the Institute of Chartered Accountants in England and Wales (ICAEW) told us that "the system is now too complex to work efficiently."[12] This complexity, they continued, has consequences for taxpayers:

> tax reliefs are of course available to unrepresented taxpayers [those without an accountant or tax advisor], but the complexity of the UK tax system leaves a high risk of error or mistake.[13]

7. The Government has a stated aim to reduce the complexity of the tax system.[14] Despite this, the Government has recently closed the Office for Tax Simplification, a matter on which we have recently reported.[15] Following that decision, we wrote to the Chancellor to ask what steps would be taken to ensure that tax simplification continues following the closure of the OTS. [16] He replied that the Treasury and HMRC have been given a mandate to simplify tax policy design.[17] Jonathan Athow said that HMRC is "starting to embed tax simplification" in the policy development process:

> We will be looking at different things, such as what the burden of complying with a new tax proposal is. Are there ways in which we can align definitions, so we have a single way of looking at proposals? Is it clear and coherent? Are there risks of driving perverse behaviours, distorting behaviours of taxpayers? Those are the sorts of things we look at as we are developing our tax policy.[18]

8 HM Revenue and Customs, About Us, para 4
9 Treasury Committee, Sixteenth Report of Session 2022–23, Tax Simplification, HC 1425, para 8
10 Q229
11 Q192
12 Institute of Chartered Accountants in England and Wales, TR0032, para 1
13 Institute of Chartered Accountants in England and Wales, TR0032, para 60
14 Correspondence from the Chancellor, relating to the Office of Tax Simplification, 20 March 2023
15 Treasury Committee, Sixteenth Report of Session 2022–23, Tax Simplification, HC 1425
16 Correspondence from the Chair to the Chancellor, relating to the Office of Tax Simplification, 2 March 2023
17 Correspondence from the Chancellor, relating to the Office of Tax Simplification, 20 March 2023
18 Q191

We note that this focus on policy development differs from the role of the OTS, which was responsible for providing advice on simplifying the existing tax system rather than new tax policies.[19]

8. **The tax system is too complicated. The huge and seemingly ever-expanding suite of tax reliefs is an important factor in that complexity. We welcome, and will monitor, the Treasury's commitment to simplifying the tax system. That simplification cannot merely focus on proposed new policies.**

9. ***We recommend that the Government undertake a comprehensive and systematic review of existing tax reliefs to look for opportunities for simplification. In doing so, they should in particular look for ways of making it easier for taxpayers to adhere to the rules.***

19 Q190

2 Analysis and Scrutiny of Tax Reliefs

Data published by HMRC

10. Tax reliefs present a significant reduction of revenue for the Exchequer. The following tables for the top five structural and non-structural reliefs (compiled from HMRC data[20]) highlight the scale of the estimated costs:[21]

Top Five Structural Tax Reliefs by estimated cost, 2022–23

Name	Tax	£ million
Personal Allowance	Income Tax	119,000
Primary Threshold	National Insurance	37,200
Secondary Threshold	National Insurance	34,100
Capital Allowances	Income Tax /Corporation Tax	24,800
Nil Rate Band for Transfers for Estates on Death	Inheritance Tax	23,000
Finance and Insurance	VAT	16,300
Total Cost for Top Five Structural Reliefs		**254,400**

Source: Structural tax reliefs - GOV.UK (www.gov.uk)

Top Five Non-Structural Tax Reliefs by estimated cost, 2022–23

Name	Tax	£ million
Private Residence Relief	Capital Gains Tax	35,200
Contributions to, and Benefits from, Registered Pension Schemes	National Insurance	27,800
Registered Pension Schemes	Income Tax	27,000
Food	VAT	22,500
Construction/Sale of New Dwellings	VAT	16,900
Total Cost for Top Five Non-Structural Reliefs		**129,400**

Source: Non-structural tax reliefs - GOV.UK (www.gov.uk)

11. HMRC estimate that in 2021–22, 105 of the 339 non-structural tax reliefs cost a combined total of £195bn.[22] This compares to the total spending on health and social care of £271.6bn in the same year.[23, 24]

20 HM Revenue and Customs, Structural Tax Reliefs, 12 January 2023; HM Revenue and Customs, Non-Structural Tax Reliefs, 25 May 2023 HMRC

21 HMRC acknowledges that for much of the published costs these are estimated. Rather than being solely pulled from HMRC's own data, HMRC state in the May 2022 Background Quality report, para 3, that "In many cases, relevant data is not directly available and so we have used proxy data and/or made assumptions."

22 HM Revenue and Customs, Non-structural tax relief statistics, 25 May 2023, para 2

23 HM Treasury, Public Expenditure Statistical Analyses 2022, July 2022, table 1.12

24 Total Managed Expenditure for the "Health and Social Care" departmental group. This is comprised of the Department for Health and Social Care and includes the National Health Service

12. Despite these substantial estimated reductions in revenue to the Exchequer, data on the total impact of tax reliefs is incomplete. Jane Whittaker, Director of Knowledge, Analysis and Intelligence at HMRC, told us that HMRC publishes a "lot of information" on the largest 36 tax reliefs.[25] HMRC publishes data twice a year on the cost of more tax reliefs,[26] but the latest cost data only covers 365 reliefs.[27] That leaves 815 of the total 1,180 tax reliefs with no published costs data.

Do tax reliefs get the scrutiny they deserve?

13. Concerns have been expressed over the scrutiny of tax reliefs in the past. The Public Accounts Committee (PAC) reported on 13 July 2020 that it was concerned that tax reliefs "are not sufficiently evaluated to ensure they are delivering what was intended when they were introduced". PAC called for HMRC and the Treasury to "markedly improve their reporting on the cost, beneficiaries, and impact of tax reliefs".[28]

14. We have heard that scrutiny of tax reliefs has not improved sufficiently since that report. Dr Hosam Al Kaddour of the University of Southampton told us that HMRC does not collect and assess enough data to ensure that tax reliefs represent value for money.[29] Bill Dodwell, then Tax Director of the OTS, agreed that HMRC does not collect sufficient data.[30] Anita Monteith, Head of Taxation Policy at the ICAEW, pointed to the lack of real-time data HMRC has access to, with information coming through "so long after the event".[31] The IfG said that the data HMRC collects is of "variable quality" and that "the UK falls well short of international best practice in evaluating its tax reliefs, even though the cost of reliefs in the UK is among the highest."[32]

15. Alex Dunnagan, Acting Director of TaxWatch, a think tank, compared the scrutiny of direct expenditure by the Government would typically receive to the scrutiny of a tax relief. He contrasted the Food Standards Agency, which has a budget of £121 million and receives scrutiny from the National Audit Office[33] with Video Games Tax Relief, which costs approximately £200 million a year and receives, he said, "very little in the way of scrutiny".[34] Kathryn Cearns, then Chair of the OTS, told us that ongoing review of tax reliefs is needed to consider whether a relief was achieving its policy objective, whether it was more costly than expected and whether it should be amended.[35]

Interactions of tax reliefs and other areas of policy

16. We heard evidence of the importance of scrutinising the interaction between tax reliefs and other aspects of the tax system. Kathryn Cearns and Bill Dodwell, then both of the OTS, cited examples of the interaction of Agricultural Relief for Inheritance Tax and Capital Gains Tax,[36] and of the interaction between Business Property Relief for

25 Q202 [Ms J Whittaker]
26 Q202 [Ms J Whittaker]
27 HMRC, Structural Tax Reliefs, 12 January 2023; HMRC, Non-Structural Tax Reliefs, 25 May 2023
28 Public Accounts Committee, Twelfth Report of Session 2019–21, Management of tax reliefs, HC 379
29 Q44 [Dr H Al Kaddour]
30 Q127
31 Q17
32 Institute for Government, TR0011, para 16
33 National Audit Office, Ensuring food safety and standards, 12 June 2019
34 Q44 [Mr A Dunnagan]
35 Q183 [Ms K Cearns]
36 Q129 [Ms K Cearns]

Inheritance Tax when buying Alternative Investment Market listed shares,[37] as examples of interactions of taxes and reliefs which "do not appear to be meeting the policy objective they were originally set for".[38]

17. Such concerns were not limited to technical tax matters. Kathryn Cearns highlighted interactions between the tax system and employment law as areas that "do not really work together terribly well".[39] The Pensions and Lifetime Savings Association said that the interaction between tax reliefs for pension contributions and the restrictions on pension saving, such as the Money Purchase Annual Allowance, could have the "unintended consequences" of discouraging saving for retirement when the intention was to prevent tax avoidance.[40]

Current scrutiny of tax reliefs

18. Jonathan Athow told us that HMRC scrutinises tax reliefs, both individually and by looking at the tax system as a whole.[41] He explained that some tax reliefs receive more scrutiny than others, telling us that "if it is an area that we think, for example, is subject to compliance risk, so people misusing the relief, that would generate more scrutiny."[42] Jane Whittaker elaborated on the evaluation process, telling us HMRC had:

> […] published 22 tax relief evaluations since 2015. We have another 10 or so in various stages from scoping through to being in the field with particular pieces of external research. We have published a set of criteria that we use to prioritise which reliefs we will evaluate. That takes into account the size of the reliefs.[43]

In addition, we heard that HMRC "run a set of research and analysis short of a full evaluation",[44] and that much ongoing scrutiny of tax reliefs could be undertaken by HMRC staff as they administer those reliefs, giving the department an understanding of what is happening "on the ground".[45]

19. The Financial Secretary to the Treasury, Victoria Atkins MP, told us that new tax relief policy goes under internal Treasury scrutiny and is also reviewed by the Office of Budget Responsibility.[46] Major fiscal events such as Budgets also provided an opportunity for Parliament to scrutinise the tax system.[47] The Financial Secretary told us that, in the months leading up to such an event, "there will be many pairs of eyes that look over any policy proposal".[48] Helen Dickinson, Director of Business and International Tax at the

37 Q129 [Mr B Dodwell]
38 Q129 [Ms K Cearns]
39 Q167
40 Pensions and Lifetime Savings Association, TR0052, Annex A, para 10.
41 Q200
42 Q201
43 Q203
44 Q205 [Ms J Whittaker]
45 Q205 [Mr J Athow]
46 Q360 [Ms V Atkins]
47 Q346
48 Q360 [Ms V Atkins]

Treasury, told us that, when designing a new tax relief, Treasury officials use a "design checklist of questions".[49] We requested to see these tools used by HMRC and though Treasury Ministers elaborated in writing, these were not shared with us.[50]

20. The IfG said, "The Treasury does not apply anything like the same rigour to scrutiny of tax reliefs–even ones that achieve a spending like objective–as it does to a similar public spending bid."[51]

Improving the scrutiny of tax reliefs

21. We heard evidence about how the scrutiny of tax reliefs could be improved. Witnesses told us that consulting widely and bringing in outside scrutiny of new tax relief proposals was important to resolving concerns about interactions between different reliefs and with other areas of public policy. ICAEW suggested that the Government should allow "adequate time" for the consulting on draft legislation.[52] The Institute of Chartered Accountants of Scotland (ICAS) told us that where tax relief policy interacts with other areas of Government policy a "tax roadmap" or strategy would help align this work, whilst allowing businesses and individuals to plan for the future.[53]

22. Kathryn Cearns told us that tax reliefs should be brought in line with other areas of government spending and subject to "value for money" tests. She argued this would lead improve ministerial accountability and facilitate scrutiny by the National Audit Office and Parliament.[54] This view was supported by the Institute for Government, who said that introducing "the Accounting Officer norms that apply to public expenditure" on tax reliefs "would act as a further brake on the introduction of poor value reliefs that then prove hard to remove."[55]

23. Treating tax reliefs as government expenditure has international precedent. Joint evidence from the Institute for Public Policy Research (IPPR), a think tank, and Tax Justice UK, a campaigning and advocacy organisation, told us that the Joint Committee on Taxation in the United States Congress[56] reports on the costs and performance against policy aims of non-structural tax reliefs as part of the budget process.[57]

24. The IPPR and Tax Justice UK said that in the UK, tax reliefs were "unique in facing so few ongoing controls on spending".[58] They explained the benefits of their proposal of placing each non-structural tax relief under the responsibility and budget of its relevant government department, rather than the Treasury:

> Reliefs could then be assessed regularly through the conventional Treasury framework for public spending control, including the budget and spending

49 Q360 [Ms H Dickinson]
50 Correspondence from the Chair to Treasury Ministers, relating to Tax Reliefs, 21 June 2023, Correspondence from Treasury Ministers to the Chair, relating to Tax Reliefs, 30 June 2023
51 Institute for Government, TR0011, para 8
52 Institute of Chartered Accountants in England and Wales, TR0032, para 82
53 Institute of Chartered Accountants of Scotland, TR0019, para 32
54 Q133 [Ms K Cearns]
55 Institute for Government, TR0011, para 11
56 United States Congress, Joint Committee on Taxation, July 2023
57 The Institute for Public Policy Research and Tax Justice UK, TR0017, page 3
58 The Institute for Public Policy Research and Tax Justice UK, TR0017, page 2

review. This would provide better policy coordination at department level, with an additional layer of formal, ongoing oversight by the UK's finance and economics ministry. It would likely produce savings.[59]

25. **Tax reliefs account for considerable reduction in tax revenue. They require adequate data to be collected and published to inform proper policymaking or accountability. However, the evidence shows that this is not happening. The disparity between scrutiny of tax reliefs and that of equivalent direct public expenditure is stark.**

26. **There are 1,180 tax reliefs, but HMRC only publishes estimated cost data for 365, leaving 815 uncosted.** ***We recommend HMRC publish cost data for all tax reliefs from the 2025/26 tax year onwards.***

27. ***We recommend the Treasury reclassify tax reliefs as Government expenditure. This would subject reliefs to established value for money assessment, leading to improved scrutiny and ultimately better policy.***

28. ***We recommend that Government consider how to ensure that the relevant delivery department takes more responsibility for the budgeting for each non-structural tax relief, those designed to promote particular behaviours, in conjunction with the Treasury. This would be intended to promote increased Ministerial accountability and subject such reliefs to levels of Treasury oversight and spending control characteristic of departmental spending.***

59 The Institute for Public Policy Research and Tax Justice UK, TR0017, page 3

3 Abuse of Tax Reliefs

29. Tax reliefs have presented opportunities for the tax system to be abused, including through tax avoidance schemes. The Chancellor's 2022 Autumn Statement speech stated that Research and Development (R&D) tax reliefs had been subject to "abuse and fraud".[60] The Office for Tax Simplification (OTS) highlighted several reliefs as being subject to abuse, including Inheritance Tax reliefs[61] and Principal Private Residence Relief.[62]

What leads to the abuse of tax reliefs?

30. The Institute of Chartered Accountants in England and Wales (ICAEW) told us that poor tax relief design can create opportunities for exploitation or abuse:[63]

> One example is intangibles relief, which was meant to support innovation. Instead it created multiple opportunities for tax avoidance where taxes were reduced with no true benefit in innovation.

31. Kathryn Cearns, then Chair of the OTS, told us that if the Treasury and HMRC do not gather sufficient views and input from outside government prior to the introduction of a tax relief it can be hard to design out abuse. This, she said, was particularly acute for those reliefs which are announced at a Budget,[64] which remain "secret" until they are announced.[65] This meant "there can be very little scope for discussion after the announcement as to whether something could be made better."[66]

32. Anita Monteith, Head of Taxation Policy at ICAEW, said that the complexity of individual tax reliefs can lead to exploitation and abuse, as "The more rules you put into something, historically that tends to mean there is more opportunity for things to perhaps go wrong."[67]

33. Alex Dunnagan, Acting Director of Tax Watch UK, stressed that problems with the abuse of tax reliefs were not restricted to policy design. He told us that the limited capacity for HMRC to carry out compliance work was also a factor in the abuse of tax reliefs. He used the example of R&D tax relief claims:

> […] when an R&D claim goes through, HMRC is unable to check all of them, so these borderline fraudulent claims go through. Yes, HMRC could look at it in retrospect through random compliance checks, but it is my understanding that it does not have the capacity or resources to do that when there are tens of thousands of claims going through every year.[68]

60 HC Deb, 17 November 2022, col 846 [Commons Chamber]
61 Office of Tax Simplification, Review of Tax Reliefs (2011), para 2.32
62 Office of Tax Simplification, Review of Tax Reliefs (2011), para F.11
63 Institute of Chartered Accountants in England and Wales, TR0032, para 14
64 Q151
65 Q184 [Ms K Cearns]
66 Q136
67 Q19
68 Q26

Tackling the abuse of tax reliefs

34. ICAEW told us that a simple tax system would reduce the opportunities for abuse. They said that "tax reliefs should be kept to a minimum",[69] arguing:

> This approach should help to keep the tax system simple, understandable, should limit the scope for abuse and also will mean that taxpayers are not foregoing reliefs to which they might have been entitled but which they did not know about.[70]

35. The Institute of Chartered Accountants of Scotland (ICAS) told us that HMRC should review tax reliefs to identify if they are being abused or are associated with tax avoidance. ICAS stated that such reviews would help HMRC to identify and counter abuse quickly, without making the reliefs "excessively difficult to access for legitimate purposes".[71] Jonathan Athow, of HMRC, told us that the department keeps tax reliefs under review.[72] He also noted that HMRC is increasingly bringing in wider input from outside government into the tax system by making more use of consultations. He cautioned, however, that the scope for consultations can be narrow as "there are sometimes limitations around how we can engage with others, given the sensitivity of these issues".[73]

36. Mr Athow told us that HMRC was in a "constant arms race" against tax avoidance, but the department is getting ahead of "many avoidance schemes, aided by "a lot of skills and experience within HMRC" in understanding and addressing abuses.[74]

37. **Tax reliefs have been abused. The most straightforward way to reduce opportunities for such abuse is to simplify the tax system.** ***Where tax reliefs are maintained, we recommend the Government monitor them for indications of abuse as part of ongoing review processes. The Government should seek and favour external consultation on potential abuse at both policy design and post-implementation monitoring phases.***

69 Institute of Chartered Accountants in England and Wales, TR0032, para 2
70 Institute of Chartered Accountants in England and Wales, TR0032, para 2
71 Institute of Chartered Accountants of Scotland, TR0019, para 35, 36
72 Q228
73 Q224
74 Q221

4 Removing reliefs from the statute book

38. We heard evidence that the pressures of tax policymaking mean that while tax reliefs may be easy to create, they are difficult to remove. Bill Dodwell, then Tax Director of the Office of Tax Simplification (OTS), told us that "One of the things Governments routinely do is add additional reliefs into the system; very rarely do they remove them from the system."[75] The Institute for Government (IfG) noted "how frequently ministers are persuaded of the benefits of introducing or expanding tax reliefs for specific groups".[76] The Institute for Public Policy Research and Tax Justice UK explained that efforts by the Treasury and HMRC to withdraw existing tax reliefs faced challenges because "tax reliefs create their own interest groups, meaning that reform can have high political costs".[77]

39. We heard evidence that tax reliefs can become gradually less effective over time. Bill Dodwell gave the example of tax thresholds. He argued that as the thresholds associated with a particular tax relief do not always move in line with inflation, and since tax reliefs are not routinely removed, the statute books become filled with tax reliefs which are no longer used. Once a tax relief was in force, associated thresholds would "just sit and ossify", progressively becoming less appropriate for the original policy purpose.[78] He used one such example:

> For inheritance tax, there is a small gifts relief of £250 and an annual £3,000 exemption for gifts. Those limits were set about 15 years ago and they are way too small to be useful for anybody. The point was to save people the administration of keeping records, but it is obvious that they need to be uplifted, if that was the purpose.[79]

Kathryn Cearns, then Chair of the OTS, agreed that the clutter of ineffective or outdated tax reliefs added complexity to the system.[80]

40. **Political pressure, including through lobbying, tends to promote both the creation of new tax reliefs and the retention of existing reliefs. Tax reliefs long detached from their original policy purpose clutter an ever more complex tax system. We are concerned that there is no routine within Government to identify and clean them from the statute book.**

One-in, one-out

41. A potential method of reducing the number of tax reliefs would be to implement a "one-in, one-out" rule, meaning a new tax relief could not be introduced unless an existing relief was removed. One-in, one-out rules have precedent in government policymaking; in

75 Q121 [Mr B Dodwell]
76 Institute for Government, TR0011, para 5
77 The Institute for Public Policy Research and Tax Justice UK, TR0017, page 2
78 Q179 [Mr B Dodwell]
79 Q125 [Mr B Dodwell]
80 Q122

2010, the then Coalition Government introduced one to require that “no new regulation [was] brought in without other regulation being cut by a greater amount”.[81] This was later extended to a “one-in, two-out rule”.[82]

42. However, our witnesses were not supportive of such a rule for tax reliefs. Anita Monteith, of ICEAW, said government may struggle to find existing reliefs to remove when looking to introduce a new relief urgently.[83] Bill Dodwell said that a wider range of analysis should be looked at when deciding on whether to remove a tax relief.[84]

Sunset clauses

43. A further option would be for new tax reliefs to have a ‘sunset clause’, a provision in a law which provides for it to cease to have effect after a certain date unless further legislative action is taken to extend it.[85] Sunset clauses included in tax relief legislation would therefore require Parliament to either take action to extend a relief or allow it to expire.

44. Anita Monteith told us that sunset clauses could prevent the proliferation of tax reliefs and limit the effects of lobbying by introducing reliefs for a fixed period.[86]

45. Currently, sunset clauses are not widely used in tax reliefs.[87] Examples of where they have been used include the Enterprise Investment Scheme (EIS) and the Venture Capital Trusts (VCTs) scheme, reliefs designed to support venture capital investment.[88] Evidence to our inquiry into Venture Capital suggested that the Government’s failure extend the sunset clauses for those schemes had led to unwelcome uncertainty for investors.[89]

46. Concern about sunset clauses creating uncertainty for businesses was echoed by Dr Jo Twist, CEO of UK Interactive Entertainment, the trade body for the UK games and interactive entertainment industry. She said the introduction of sunset clauses on tax reliefs enjoyed by the video games industry would be “disastrous”, as businesses and investors work on long timescales, requiring certainty.[90] Jonathan Athow, of HMRC, made a similar point, stating “sometimes certainty counts a lot for businesses to allow them to invest. Particularly if they are taking decisions that might have implications for decades, they would be looking for certainty”.[91]

81 HM Government, The Coalition: our programme for government, section 3
82 Department for Business Innovation and Skills, Appendix 4
83 Q56
84 Q125 [Mr B Dodwell]
85 UK Parliament, Sunset Clause
86 Q56
87 Q225
88 Treasury Committee, Nineteenth Report of Session 2022–23, Venture Capital (HC 134)
89 Treasury Committee, Nineteenth Report of Session 2022–23, Venture Capital (HC 134)
90 Q58 [Dr J Twist]
91 Q225

47. Victoria Atkins MP, Financial Secretary to the Treasury, told us that sunset clauses would only be suitable for certain reliefs:

> On sunsets, we look to use them where we can. Sometimes they are appropriate; sometimes they are not. We would not want to put a sunset clause, for example, on the VAT exemption on food. Obviously, it would frighten people were we to do so.[92]

Review clauses

48. The final alternative we considered were requirements on the Government to regularly review a tax relief. Jane Whittaker, of HMRC, told us that her department runs ad hoc analysis of tax reliefs, which can encompass public consultation. She noted that HMRC had recently reviewed pensions reliefs.[93] The IfG told us in written evidence that evaluations of tax reliefs has improved over time, but they remain "far from complete", noting findings from an NAO report published in 2020 which showed that 7% of the total costs of tax reliefs are evaluated by HMRC.[94]

49. Kathryn Cearns suggested tax reliefs could be reviewed on a predictable timetable (perhaps every three to five years):

> If that was happening on a regular basis and everybody got used to that cycle and expected improvements to come through as a result of it, that would be a good systemic thing to do.[95]

She told us that she did not "see any reason why you could not have a general rule about how frequently something was reviewed".[96]

50. **We have taken evidence on several options for seeking to remove outdated tax reliefs from the statute book. A "one in, one out" rule for tax reliefs would be a blunt instrument which could reduce flexibility in policy-making. Sunset clauses have their place, but tax relief expiry dates can act against the certainty important to promoting long-term investment. A formal, structured system of five-yearly reviews would provide enough time to judge the effectiveness of a tax relief and allow an opportunity to remove those reliefs no longer meeting their objectives.**

51. ***We recommend that the Government institutes a system of five-yearly reviews, incorporating public consultation, for tax reliefs. Where these reviews find tax reliefs which no longer achieve policy objectives, are vulnerable to abuse, or have estimated costs significantly higher than expectations, then the Government should commit to removing those reliefs.***

92 Q316 [Ms V Atkins]
93 Q205 [Ms J Whittaker]
94 Institute for Government, TR0011, para 16
95 Q152 [Ms K Cearns]
96 Q152 [Ms K Ceanrs]

Conclusions and recommendations

Tax reliefs and simplification of the tax system

1. The tax system is too complicated. The huge and seemingly ever-expanding suite of tax reliefs is an important factor in that complexity. We welcome, and will monitor, the Treasury's commitment to simplifying the tax system. That simplification cannot merely focus on proposed new policies. (Paragraph 8)

2. *We recommend that the Government undertake a comprehensive and systematic review of existing tax reliefs to look for opportunities for simplification. In doing so, they should in particular look for ways of making it easier for taxpayers to adhere to the rules.* (Paragraph 9)

3. Tax reliefs account for considerable reduction in tax revenue. They require adequate data to be collected and published to inform proper policymaking or accountability. However, the evidence shows that this is not happening. The disparity between scrutiny of tax reliefs and that of equivalent direct public expenditure is stark. (Paragraph 25)

4. There are 1,180 tax reliefs, but HMRC only publishes estimated cost data for 365, leaving 815 uncosted. *We recommend HMRC publish cost data for all tax reliefs from the 2025/26 tax year onwards.* (Paragraph 26)

5. *We recommend the Treasury reclassify tax reliefs as Government expenditure. This would subject reliefs to established value for money assessment, leading to improved scrutiny and ultimately better policy.* (Paragraph 27)

6. *We recommend that Government consider how to ensure that the relevant delivery department takes more responsibility for the budgeting for each non-structural tax relief, those designed to promote particular behaviours, in conjunction with the Treasury. This would be intended to promote increased Ministerial accountability and subject such reliefs to levels of Treasury oversight and spending control characteristic of departmental spending.* (Paragraph 28)

Abuse of Tax Reliefs

7. Tax reliefs have been abused. The most straightforward way to reduce opportunities for such abuse is to simplify the tax system. *Where tax reliefs are maintained, we recommend the Government monitor them for indications of abuse as part of ongoing review processes. The Government should seek and favour external consultation on potential abuse at both policy design and post-implementation monitoring phases.* (Paragraph 37)

Removing reliefs from the statute book

8. Political pressure, including through lobbying, tends to promote both the creation of new tax reliefs and the retention of existing reliefs. Tax reliefs long detached from their original policy purpose clutter an ever more complex tax system. We are concerned that there is no routine within Government to identify and clean them from the statute book. (Paragraph 40)

9. We have taken evidence on several options for seeking to remove outdated tax reliefs from the statute book. A "one in, one out" rule for tax reliefs would be a blunt instrument which could reduce flexibility in policy-making. Sunset clauses have their place, but tax relief expiry dates can act against the certainty important to promoting long-term investment. A formal, structured system of five-yearly reviews would provide enough time to judge the effectiveness of a tax relief and allow an opportunity to remove those reliefs no longer meeting their objectives. (Paragraph 50)

10. *We recommend that the Government institutes a system of five-yearly reviews, incorporating public consultation, for tax reliefs. Where these reviews find tax reliefs which no longer achieve policy objectives, are vulnerable to abuse, or have estimated costs significantly higher than expectations, then the Government should commit to removing those reliefs.* (Paragraph 51)

Formal minutes

Members present

Harriett Baldwin, in the Chair

Dame Angela Eagle

Emma Hardy

Andrea Leadsom

Anne Marie Morris

Draft Report (*Tax Reliefs*), proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 51 agreed to.

Summary agreed to.

Resolved, That the Report be the Twentieth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Wednesday 19 July at 2.00 pm.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 19 December 2022

Anita Monteith, Head of Taxation Policy, Institute of Chartered Accountants in England and Wales; **Mr Alex Dunnagan**, Acting Director, TaxWatch; **Dr Hosam Al Kaddour**, Head of Teaching and Learning in Accounting Department, University of Southampton; **Dr Jo Twist OBE**, CEO, UK Interactive Entertainment Q1–93

Wednesday 01 March 2023

Kathryn Cearns, Chair, Office of Tax Simplification; **Bill Dodwell**, Tax Director, Office of Tax Simplification Q94–187

Wednesday 17 May 2023

Jonathan Athow, Director General, Customer Strategy & Tax Design, HMRC; **Philippa Madelin**, Director of Wealthy and Mid-Sized Business Compliance, HMRC; **Jane Whittaker**, Director of Knowledge, Analysis and Intelligence, HMRC Q188–297

Wednesday 14 June 2023

Andrew Griffith MP, Economic Secretary, HM Treasury; **Victoria Atkins MP**, Financial Secretary, HM Treasury; **Joanna Key**, Director Growth and Infrastructure, HM Treasury; **Helen Dickinson**, Director Business and International Tax, HM Treasury Q298–386

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

1 AAT (Association of Accounting Technicians) (TR0006)

2 Al Kaddour, Dr Mohamed Hosam (Principal Teaching Fellow in Accounting, Taxation and Financial Management, Department of Accounting, Southampton Business School, the University of Southampton); Tauringana, Prof Ven (Head of the Department of Accounting and Professor of Accounting and Sustainability, Department of Accounting, Southampton Business School, the University of Southampton); and Ntim, Prof Collins (Professor of Accounting, Department of Accounting, Southampton Business School, University of Southampton) (TR0051)

3 Association of Consulting Actuaries (TR0010)

4 Association of Investment Companies (AIC) (TR0004)

5 Association of Taxation Technicians (TR0021)

6 AudioUK (TR0048)

7 Azets Holdings Ltd (TR0003)

8 BUFDG (TR0027)

9 British Beer and Pub Association (TR0053)

10 British Film Commission (TR0013)

11 British Film Institute (BFI) (TR0020)

12 British Property Federation (TR0045)

13 COBA (TR0033)

14 Charity Law Association (TR0022)

15 Chartered Institute of Taxation (TR0029)

16 Childcare Voucher Providers Association (TR0034)

17 Churches' Legislation Advisory Service (TR0008)

18 Confederation of British Industry (TR0043)

19 Construction Plant-Hire Association (TR0002)

20 Country Land and Business Association (TR0024)

21 Crowe UK LLP (TR0030)

22 Cushon (TR0046)

23 Cycle to Work Alliance (TR0028)

24 Demos (TR0038)

25 E3 Consulting (TR0014)

26 Enterprise Investment Scheme Association (EISA) (TR0047)

27 Finance & Leasing Association (TR0026)

28 ForrestBrown Limited (TR0050)

29 Historic Houses (TR0015)

30 ICAS (TR0019)

31 Independent Schools Council (ISC); and Independent Schools Bursars Association (ISBA) (TR0037)

32 Institute for Family Business (TR0025)

33 Institute for Government (TR0011)

34 Institute of Chartered Accountants in England and Wales (TR0032)

35 Intergenerational Foundation (TR0023)

36 KPMG LLP (TR0042)

37 Law Society of Scotland (TR0012)

38 Low Incomes Tax Reform Group (TR0009)

39 MG Alba (TR0041)

40 Octopus Group (TR0040)

41 Onward (TR0016)

42 Pearl Lily & Co Accountants (TR0007)

43 Pensions and Lifetime Savings Association (TR0052)

44 Pittock, Mr Chris (Senior Partner, Hinton Abbott Accountants) (TR0001)

45 Real Meal Deal Campaign (TR0044)

46 S4C (TR0036)

47 Stewardship Services (UKET) Ltd (TR0031)

48 TAC - Teledwyr Annibynnol Cymru (TR0035)

49 Tax Justice UK; and Institute for Public Policy Research (TR0017)

50 TaxWatch (TR0005)

51 The 100 Group Taxation Committee (TR0054)

52 UK Music (TR0056)

53 Venture Capital Trust Association (TR0039)

54 Vialto Partners (TR0049)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
1st	Future of financial services regulation	HC 141
2nd	Future Parliamentary scrutiny of financial services regulations	HC 394
3rd	The appointment of Dr Swati Dhingra to the Monetary Policy Committee	HC 460
4th	Jobs, growth and productivity after coronavirus	HC 139
5th	Appointment of Marjorie Ngwenya to the Prudential Regulation Committee	HC 461
6th	Appointment of David Roberts as Chair of Court, Bank of England	HC 784
7th	Re-appointment of Sir Dave Ramsden as Deputy Governor for Markets and Banking, Bank of England	HC 785
8th	Autumn Statement 2022 – Cost of living payments	HC 740
9th	Appointment of Ashley Alder as Chair of the Financial Conduct Authority	HC 786
10th	The work of the Sub-Committee on Financial Services Regulations	HC 952
11th	Fuel Duty: Fiscal forecast fiction	HC 783
12th	Appointment of Professor Randall Kroszner to the Financial Policy Committee	HC 1029
13th	Scam reimbursement: pushing for a better solution	HC 939
14th	The work of the Sub-Committee on Financial Services Regulations	HC 952-i
15th	Regulating Crypto	HC 615
16th	Tax Simplification	HC 723
17th	The appointment of Megan Greene to the Monetary Policy Committee	HC 1395
18th	The work of the Sub- Committee on Financial Services Regulations	HC 952-ii
19th	The venture capital market	HC 134
1st Special	Defeating Putin: the development,implementation and impact of economic sanctions on Russia: Government Response to the Committee's Twelfth Report of Session 2021–22	HC 321

Number	Title	Reference
2nd Special	Future of financial services regulation: responses to the Committee’s First Report	HC 690
3rd Special	Jobs, growth and productivity after coronavirus: Government response to the Committee’s Fourth Report	HC 861
4th Special	Autumn Statement 2022 – Cost of living payments: Government response to the Committee’s Eighth Report	HC 1166
5th Special	Fuel Duty: Fiscal forecast fiction: Government response to the Committee’s Eleventh Report	HC 1242

Session 2021–22

Number	Title	Reference
1st	Tax after coronavirus: the Government’s response	HC 144
2nd	The appointment of Tanya Castell to the Prudential Regulation Committee	HC 308
3rd	The appointment of Carolyn Wilkins to the Financial Policy Committee	HC 307
4th	The Financial Conduct Authority’s Regulation of London Capital & Finance plc	HC 149
5th	The Future Framework for Regulation of Financial Services	HC 147
6th	Lessons from Greensill Capital	HC 151
7th	Appointment of Sarah Breeden to the Financial Policy Committee	HC 571
8th	The appointment of Dr Catherine L. Mann to the Monetary Policy Committee	HC 572
9th	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility	HC 966
10th	Autumn Budget and Spending Review 2021	HC 825
11th	Economic crime	HC 145
12th	Defeating Putin: the development, implementation and impact of economic sanctions on Russia	HC 1186
1st Special	Net Zero and the Future of Green Finance: Responses to the Committee’s Thirteenth Report of Session 2019–21	HC 576
2nd Special	The Financial Conduct Authority’s Regulation of London Capital & Finance plc: responses to the Committee’s Fourth Report of Session 2021–22	HC 700
3rd Special	Tax after coronavirus: response to the Committee’s First Report of Session 2021–22	HC 701
4th Special	The Future Framework for Regulation of Financial Services: Responses to the Committee’s Fifth Report	HC 709
5th Special	Lessons from Greensill Capital: Responses to the Committee’s Sixth Report of Session 2021–22	HC 723

Number	Title	Reference
6th Special	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility: Government response to the Committee's Ninth Report	HC 1184
7th Special	Autumn Budget and Spending Review 2021: Government Response to the Committee's Tenth Report	HC 1175
8th Special	Economic Crime: responses to the Committee's Eleventh Report	HC 1261

Session 2019–21

Number	Title	Reference
1st	Appointment of Andrew Bailey as Governor of the Bank of England	HC 122
2nd	Economic impact of coronavirus: Gaps in support	HC 454
3rd	Appointment of Richard Hughes as the Chair of the Office for Budget Responsibility	HC 618
4th	Appointment of Jonathan Hall to the Financial Policy Committee	HC 621
5th	Reappointment of Andy Haldane to the Monetary Policy Committee	HC 620
6th	Reappointment of Professor Silvana Tenreyro to the Monetary Policy Committee	HC 619
7th	Appointment of Nikhil Rathi as Chief Executive of the Financial Conduct Authority	HC 622
8th	Economic impact of coronavirus: the challenges of recovery	HC 271
9th	The appointment of John Taylor to the Prudential Regulation Committee	HC 1132
10th	The appointment of Antony Jenkins to the Prudential Regulation Committee	HC 1157
11th	Economic impact of coronavirus: gaps in support and economic analysis	HC 882
12th	Tax after coronavirus	HC 664
13th	Net zero and the Future of Green Finance	HC 147
1st Special	IT failures in the financial services sector: Government and Regulators Responses to the Committee's Second Report of Session 2019	HC 114
2nd Special	Economic Crime: Consumer View: Government and Regulators' Responses to Committee's Third Report of Session 2019	HC 91
3rd Special	Economic impact of coronavirus: Gaps in support: Government Response to the Committee's Second Report	HC 662
4th Special	Economic impact of coronavirus: Gaps in support: Further Government Response	HC 749

Number	Title	Reference
5th Special	Economic impact of coronavirus: the challenges of recovery: Government Response to the Committee’s Eighth Report	HC 999
6th Special	Economic impact of coronavirus: gaps in support and economic analysis: Government Response to the Committee’s Eleventh Report	HC 1383