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Treasury Committee

Tax after coronavirus: the Government's response

First Report of Session 2021–22

Report, together with formal minutes relating to the report

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

Current Membership

Mel Stride MP (Chair) *(Conservative, Central Devon)*

Rushanara Ali MP *(Labour, Bethnal Green and Bow)*

Steve Baker MP *(Conservative, Wycombe)*

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Alison Thewliss MP *(Scottish National Party, Glasgow Central*)

The following was also a Member of the Committee during this session: Mike Hill MP (*Labour, Hartlepool*).

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website at www.parliament.uk/treascom/ and in print by Order of the House.

Committee staff

The current staff of the Committee are Jack Dent (Second Clerk), Rachel Edwards (on secondment from the Bank of England), Kenneth Fox (Clerk), Dan Lee (Senior Economist), Cat Melvin (on secondment from the Financial Conduct Authority), Aruni Muthumala (Senior Economist), Moyo Oyelade (on secondment from the Bank of England), Matt Panteli (Senior Media and Policy Officer), Tony Verran (on secondment from HM Revenue & Customs), Adam Wales (Chief Policy Adviser), Maciej Wenerski (Committee Operations Manager), Jesse Williams (Committee Operations Officer), and Marcus Wilton (Senior Economist).

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Summary

This report publishes the Government's response to the Committee's Tax After Coronavirus report, with commentary on aspects of that response. It recommends that the Government provide the Committee with a more detailed explanation of why it has rejected the Committee's recommendation that it draw up a draft tax strategy for consultation along the lines that are set out in the Committee's report.

1 The Tax After Coronavirus inquiry and report

Context of the inquiry

1. The inquiry was launched with a call for evidence in July 2020, in the context of rapidly growing public debt as a result of the essential and unprecedented support to the economy provided by the Government in response to the coronavirus crisis.

2. We have consistently very much welcomed that Government support, although we have pressed for more support for people unable to benefit from the schemes provided for employees and the self-employed. Our scrutiny of Government support is set out in our various reports on the Economic Impact of Coronavirus.[1]

3. We realise that Government support comes at a cost. It is quite appropriate therefore for the Committee to examine the role the tax system should play in the future and, if increased taxation is necessary, to examine the most economically efficient and most fair ways to raise it.

Our report

4. Our Report was published on 1 March 2021, two days before Budget 2021. The Committee was encouraged that some of the revenue-raising measures announced in the Budget had been foreshadowed in our Report. For example, the Chancellor announced an increase in the rate of corporation tax to 25% from 2023, which aligns with the conclusion in our report that a modest increase in the rate of corporation tax could raise revenue without damaging growth.[2] We also noted that a freeze in income tax thresholds would raise revenue while minimising economic distortions, and the Chancellor subsequently announced a four-year freeze from 2022–23.[3]

5. Recognising that in 2021 the economy needs help to recover from the effects of the pandemic, we concluded that now is not the time for tax rises. Instead we recommended measures to support business, including a three year loss carry back,[4] and extending the increase in the Annual Investment Allowance, possibly permanently.[5] At Budget 2021 the Government announced the loss carry back and a new time limited super deduction for capital allowances to boost capital investment ahead of the planned increase in corporation tax rates.[6] The Committee strongly supports these measures.

6. However, we note that the Government did not extend the AIA, meaning that millions of self-employed businesses and partnerships have no additional incentive to invest.

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1 Treasury Committee, Second Report of Session 2019–21, Economic impact of coronavirus: Gaps in support , HC 454, Treasury Committee, Eighth Report of Session 2019–21, Economic impact of coronavirus: the challenges of recovery, HC 271 and Treasury Committee, Eleventh Report of Session 2019–21; Economic impact of coronavirus: gaps in support and economic analysis, HC 882.

2 Treasury Committee, Twelfth Report of Session 2019–21, Tax After Coronavirus HC 664, para 116

3 ibid, para 97

4 ibid, para 56

5 ibid, para 62

6 HM Treasury, Budget 2021, HC 1226, paras 2.51 and 2.68

7. In the report we also evaluated many other areas of the tax system where we believe that the evidence is clear that reform is needed and where significant additional tax could be raised. For example, we recommended that the Government considers reform to pension tax relief, along with reforms to help address the gap that exists between the taxation of the self-employed and limited companies as compared to the taxation of employment, and capital taxes.[7] The Government has not accepted these recommendations.

8. We noted that the digital services tax is a useful step towards capturing some of the profits made in the UK by digital companies[8] and that the Government has said that it will be abolished if international agreement is reached. We therefore recommended that the Government provide us with an annual report of the progress it has made towards international agreement.[9] This need be little more than an update letter to the Committee. We are disappointed that in its response the Government did not agree to this.

9. We made a series of recommendations for tax strategies and principles. We recommended that the Government should create an overarching tax strategy. This would not need to pre-announce specific tax commitments: it could cover instead the Government's overall approach to major questions such as the taxation of consumption, income, capital, and companies and the overall direction of travel that it will seek to follow in successive budgets, including the role of the tax system in meeting fiscal goals.[10]

10. We also recommended that the Government should:

- Following consultation, set out principles and objectives for the VAT system now that VAT is free from EU law;[11] and
- Develop a tax strategy to meet "net zero". This should include tax measures to incentivise the behavioural changes needed to achieve net zero while at the same time providing short term support in the tax system for pump-priming green innovation and balancing the need to protect those on low incomes.[12]

11. We are disappointed that the Government did not agree to these recommendations in its response.

The Government response

12. The full response we have received from the Government is published as an Appendix to this report.

13. We did not expect the Government to announce specific changes to tax policy in its response to us: we would expect new announcements to be made in a Budget statement. We do believe however that our Report's analysis of, and support for, tax reform will be of benefit to the Government, as it may, as a report produced by a cross party committee, help to overcome political barriers to reform. This was recognised by the Financial Secretary, who thanked us for producing the report in his letter and described it as a helpful contribution to the debate on tax policy and the future of the tax system.

7 ibid, paras 123, 142, 146 and 164.
8 ibid, para 155
9 ibid, para 156
10 ibid, para 221
11 ibid, para 181
12 ibid, para 191

14. We welcome the measures announced at Budget 2021 that were recommended in our report. These include the increase in corporation tax, the freezing of personal allowances, the three year loss carry back and the increase in capital allowances.

15. However, the Government has not accepted our recommendations for reform of the tax system or of the tax policymaking process. And, in a number of cases, while the Government does not explicitly reject our recommendations, it does not agree to implement them and is unclear about why. For instance:

- On VAT, the Government provides general background about its current approach to VAT but fails to explain why it is not minded to accept our recommendation that it should set out principles and objectives for the VAT system now that VAT is free from EU law;
- On our recommendation to develop a strategy for the tax system to help meet "net zero", the Government explains what it is doing but does not say whether or not is agrees with our recommendation.
- In responding to our recommendation for an overall strategy, the Government recognises the importance of public engagement and strategy, and the benefits of roadmaps. But it is unclear whether the Government agrees with the Committee's recommendation or not, saying that "it will continue to consider the case for further opportunities to set out road maps" but adding that "it is not always appropriate for the Government to pre-announce tax reforms given the issues caused by forestalling activity".

16. ***We request that the Government provides a clearer explanation of why it cannot accept any of the three strategy recommendations listed in paragraph 15, including an explanation of whether it believes that these recommendations are detrimental to the economy, and if so, why.***

Balance of recommendations

17. In his covering letter, the Financial Secretary to the Treasury also said that the balance of our recommendations "leans away from measures that would help to repair the public finances in the coming years". We dispute this, and the Committee was disappointed with this observation. The report clearly provides an analysis of the fiscal position, and it concludes that the public finances are on an unsustainable long-term trajectory that has been exacerbated by the coronavirus pandemic, and that additional tax revenue could make a contribution to addressing this.[13] We identified measures—which the Government adopted—for raising many billions in additional revenue. We also evaluated a wealth tax and an excess profits tax, both of which have been proposed as ways of paying for the fiscal costs of the pandemic. Having weighed up the economic and political advantages and disadvantages we did not advocate them, but nor did we conclude that they should be ruled out under all circumstances.[14]

18. Moreover, we believe that the reforms to the tax system recommended in our report would enable the current and future governments to raise additional revenue from the tax

13 ibid, para 50
14 ibid, paras 70, 84 and 88

system, should it be needed, while minimising the resulting distortions to the economy. **We invite the Financial Secretary to re-assess the revenue-raising opportunities highlighted and recommended in our Report.**

Appendix: The Government's response

Dear Mel,

Tax after Coronavirus report: March 2021

I thank you, the Committee and your advisers, for this helpful contribution to the debate on tax policy and the future of the tax system.

As the Chancellor set out at the Budget, the Government will continue to support jobs and livelihoods in the near term, and the Budget introduced a set of additional measures to support business during this period of uncertainty. Building on that support, the Budget also put in place measures to boost investment and kick-start the recovery. However, the Chancellor has also been clear with taxpayers about the need to get the public finances back on track once the recovery is durably under way. Many of the steps taken in the Budget were consistent with the recommendations in the Committee's report. I attach an appendix which details the Government's response to the Committee's recommendations.

The Government agrees with the Committee's conclusion that continued support for business is vital in the near term. The Government has extended loss carry back rules from one to three years for both incorporated and unincorporated businesses, as recommended by the Committee. In addition, the Chancellor introduced a temporary capital allowance super-deduction of 130 per cent and a new 50 per cent first year allowance for special rate plant and machinery assets, which provide greater tax relief on capital expenditure for two years. Alongside this, the Budget extended a number of the existing support schemes, including the business rates reliefs, and the VAT cut for the UK's tourism and hospitality sector.

Further to these tax measures, the Government has introduced several spending measures as part of the business support package, such as extensions to the Coronavirus Job Retention Scheme and Self-employed Income Support Scheme, in order to continue to support businesses and individuals affected by restrictions, as well as to grant and loan schemes including the Retail, Hospitality and Leisure Grant Fund. As a result of the Government's actions over the past year and the measures announced at Budget, the OBR expects the economy to return to its pre-crisis peak two quarters earlier than previously forecast.

The Budget also set out steps to repair the public finances once the recovery is well under way. Among these, Government will increase the main rate of corporation tax. The UK's headline rate of corporation tax will remain the lowest rate in the G7, however, and in order to support the recovery, the increase will not take effect until 2023. The Government's decision to increase the income tax personal allowance in 2021–22 and subsequently freeze it until April 2026 – alongside freezes to the inheritance tax, pensions lifetime allowance and capital gains tax annual exempt amount – is a progressive and fair way to fund public services and rebuild the public finances.

The Committee proposed a number of priorities for reform and recommended setting out strategies for Stamp Duty Land Tax, net zero and VAT, as well as a tax strategy overall. The Budget has set out the Chancellor's medium-term plan for how the tax system will support the Government's broad economic objectives for the next five years. The Government keeps all taxes under review and the Chancellor will outline tax reforms as part of future fiscal events.

The Government fully agrees with the importance of public engagement in tax policy making. The Government will continue to engage with Parliament, tax policy professions and the general public on tax strategy through fiscal events and the wider tax policy making process, and will look to improve this level of engagement where possible.

Regarding reforms to taxing income, including pensions: in the current economic context the Government's immediate focus is to support businesses and workers and help them to recover from the impacts of the pandemic. On VAT reform, the Government intends VAT to remain a broad-based tax on consumption where the standard rate of 20 per cent applies to most goods and services. VAT contributes a significant amount to the public finances, raising approximately £130 billion in 2019–2020. Given this importance to fiscal sustainability, any further changes to VAT rules would need to be considered very carefully as part of the normal fiscal events process.

Thank you again for producing this report. Many of its recommendations have implications for the fiscal position, and so any changes to these measures will need to be considered in the round and announced as part of the Government's wider tax, spending and fiscal strategy at future fiscal events. As the Chancellor set out at the Budget, the Government must also consider its approach to returning the public finances to a sustainable position once a durable recovery is in place. In that vein, whilst the Government appreciates the Committee's detailed analysis and engagement on tax policy, I note that the balance of recommendations in the report leans away from measures that would help to repair the public finances in the coming years.

As ever,

RT HON JESSE NORMAN MP

Appendix: response to individual Tax after Coronavirus recommendations

We recommend that the government should do as its predecessors have done during previous crises and support businesses by introducing a temporary three-year loss carry-back for trading losses in both incorporated and unincorporated businesses. This would help those businesses which have shown that they are previously profitable recover from losses imposed on them by the impact of the pandemic.

The Government has done this: at Budget 2021, the Government announced it would temporarily extend loss carry back rules from one year to three years, for both incorporated and unincorporated businesses.

This extends the loss carry back facility for up to £2,000,000 of losses. That is 40 times the cap applied when the loss carry back facility was last extended, during the 2008 Financial Crisis.

In addition to the unprecedented package of COVID-19 support, this demonstrates that the Government is committed to supporting otherwise viable businesses that have been impacted by the pandemic, and specifically pushed into a loss-making position.

The Annual Investment Allowance is valued by business and it appears well targeted to promote growth in small and medium-sized enterprises. As with all tax reliefs there is likely to be some deadweight cost; but we urge the government to look favourably on further extension and possibly permanency at the existing level, which would provide welcome certainty to small and medium-sized enterprises.

The previously announced extension of the £1 million Annual Investment Allowance (AIA) limit runs until 2022. Since that announcement, the Government has gone further to lay the foundations for a recovery driven by the private sector that spreads investment and opportunity throughout the UK. At Budget 2021, the Chancellor announced the super-deduction and a new 50 per cent first-year allowance for special rate plant and machinery assets. These new capital allowances provider for even greater relief on most plant and machinery investments and are completely uncapped, unlike the AIA.

The Government remains committed to maintaining a pro-business investment environment and any further changes to the AIA will be considered in the context of these new capital allowances and wider fiscal priorities.

Given the regressive nature of the benefits accruing to individuals from the current arrangements on pension tax relief, especially those in the top earnings decile, the Chancellor should urgently reform the entire approach to pension tax relief.

As the committee is aware, the 2015 consultation on pensions tax indicated no clear consensus for reform. Changes to pensions tax relief in recent years have aimed to strike a balance between allowing the vast majority of savers to make significant tax-free pension savings and targeting incentives to save on those who most need Government support to save for retirement. Altering this balance could have profound and far-reaching impacts, and so while all tax reliefs are kept under review, more radical changes to pensions tax relief would require careful consideration.

The Government has made a number of changes in recent years to ensure pensions tax relief continues to be fairly distributed. For example, at Budget 2021 the Chancellor froze the lifetime allowance at £1,073,100 until April 2026. This is a progressive measure that only affects those with the largest pensions. Furthermore, at Budget 2020 the Government increased the two tapered annual allowance thresholds to ensure those with earnings below £200,000, including many working in the health service, would not have their allowance reduced. Finally, the Government is analysing the responses to last year's Call for Evidence on pensions tax relief administration in line with its manifesto commitment to review comprehensively the differing outcomes for low earners between the two main methods of providing pensions tax relief.

Evidence to this inquiry is clear that differences between income tax and national insurance contributions create distortions and unfairness. While we have not heard enough evidence to recommend a wholescale merger of national insurance contributions and income tax, the government should consider what can be done to remove the distortions gradually through time.

The Government recognises that the current non-alignment of income tax and NICs can give rise to complexity. In the past, governments have considered the case for more closely aligning income tax and NICs to make the system simpler for individuals and businesses. Most recently, the Office of Tax Simplification (OTS) considered this in 2016 and its reports can be found at https://www.gov.uk/government/publications/ots-publishes-further-report-on-the-closer-alignment-of-it-and-nics.

The OTS analysis shows there are a range of challenges that would need to be taken into consideration before proceeding with such a radical reform, with consequences for a large number of individuals. Any reforms that make NICs match the income tax structure could mean a significant number of individuals would end up with a different NICs liability, with some paying more, and others less. These impacts would have to be carefully considered as part of any proposal.

As mentioned in the response to the OBR's 2017 Fiscal Risks Report, the Government continues to monitor the impact of different ways of working on revenues. The Government will continue to consider scope for reform to reduce any risk of distortion, although in the short term any reforms would have to be considered in the context of the Government's immediate focus on supporting businesses and workers and helping them to recover from the impacts of the pandemic.

The Government has already taken a number of steps to reduce the disparity of tax treatment, for example by reforming the main rates of dividend tax in 2016 and reducing the dividend allowance from £5,000 to £2,000 from 2018.

At Budget 2021, the Government announced that the rate of corporation tax will increase to 25 per cent in 2023, with businesses with profits of £50,000 or less continuing to be taxed at 19 per cent. According to the OBR certified forecast, the corporation tax increase will reduce the tax incentive to incorporate, saving the exchequer an estimated £200 million in 2025/26.

In addition, the Government reformed the way in which the off-payroll working rules are applied in the public sector in 2017, and in all other sectors from April 2021. The off-payroll working rules are designed to ensure that individuals working like employees but through their own Personal Service Company (PSC) pay broadly the same income tax and NICs as those who are directly employed.

We recommend that the government provide this Committee with an annual report on progress towards reaching international agreement on the taxation of digital services, the yield of the digital services tax and the effects of the tax on digital companies and the wider economy.

The Government will continue to be clear and transparent about its broad objectives in this area. However, it would not be appropriate for HM Treasury to provide a detailed report each year assessing the status, and evaluating the progress of fast-moving, complex discussions that typically take place between countries on a confidential basis.

Moreover, it is the Chancellor's stated ambition to reach a multilateral solution to the tax challenges of digitalisation within the year, in line with the G20 mandate.

The Digital Services Tax liability accrued starting from 1 April 2020 and is payable nine months after the end of groups' accounting periods. Payment dates therefore vary by group. HMRC have started to receive payments although will not be providing further detail for reasons of taxpayer confidentiality. The yield of the Digital Services Tax will first be published in November within the HMRC Annual Report and Accounts.

Current reporting on the state of the digital economy is covered in DCMS's annual Sector Economic Estimates (found here https://www.gov.uk/government/statistics/dcms-economic-estimates-2019-gross-value-added/dcms-economic-estimates-2019-provisional-gross-value-added#gva-in-individual-dcms-sectors), which is used to provide an estimate of the contribution of DCMS Sectors to the UK economy including GVA, business demographics and employment. The report found that the UK's digital economy is thriving, despite the adversity faced through the COVID-19 pandemic. The sector is also a vital contributor to the wider UK economy and the sector contributed £150.6bn to the UK economy from 2010 to 2019.

The government should, following consultation, set out principles and objectives for the VAT system now that VAT is free from EU law. This should include a framework within which new reliefs can be assessed or existing ones withdrawn. The government should ensure that the principles balance revenue raising, economic growth and other objectives, such as improving the quality of the environment and "levelling up".

Following the end of the transition period, the UK is free to set its own VAT and excise rules. The Government is already using that freedom to create a fairer and more robust tax system, which complies with World Trade Organisation rules and other international obligations. The Government introduced changes effective from the end of the transition period in respect of goods from overseas suppliers, including changes to how VAT is paid on low value consignments. The Government has also implemented other VAT and excise changes which came into effect on 1 January 2021, including changes to passengers policy and the zero rating of women's sanitary products. As announced at Budget 2020, the Government is also currently undertaking a review of alcohol duty, a review of the UK funds regime including the VAT treatment of fund management fees, and establishing an industry working group to review how financial services are treated for VAT purposes. The Government keeps all tax policy under review, including all tax reliefs. As part of the established tax policy making process, the Government consults on new tax policy including reliefs and conducts monitoring and evaluation of existing reliefs. Tax reliefs are implemented through the Finance Bill, which is scrutinised by Parliament to ensure that reliefs, and tax policy in general, are well-designed and effective.

As Budget 2021 acknowledged, VAT makes a significant contribution towards the public finances and the Government intends VAT to remain a broad-based tax on consumption where the standard rate of 20% applies to most goods and services. VAT is the third biggest tax head, and an important source of revenue for the Exchequer, raising approximately £130 billion in 2019/2020. Any further changes to VAT rules would need to be considered very carefully, as part of the normal fiscal events process.

Regarding the Northern Ireland Protocol, Northern Ireland is and remains part of the UK's VAT and excise system. HMRC are responsible for the application and collection of VAT and excise revenues and the UK Parliament is responsible for the setting of VAT and excise rates across the UK, including in Northern Ireland. The Protocol does mean that Northern Ireland maintains alignment on some administrative processes included within the EU VAT and excise rules for goods. So, for example, under the terms of the Northern Ireland Protocol, the administrative processes that apply to the movement of goods between the EU and Northern Ireland have not been changed and remain broadly as they were before the end of the transition period.

The government should develop a tax strategy to meet net zero. This should include tax measures to incentivise the behavioural changes needed to achieve net zero while at the same time providing short term support in the tax system for pump-priming green innovation and balancing the need to protect those on low incomes.

In June 2019, the UK became the first major economy to legislate to end its net contribution to climate change by 2050 and the Government remains committed to maintaining an ambitious carbon price to ensure that polluters continue to pay for their emissions. The role of tax and carbon pricing, alongside other levers, in meeting net zero, as well as managing the impacts and costs of the transition, will be considered as part of the Final Report of the Net Zero Review and future fiscal events. In addition, the Government will set out its overall Net Zero Strategy ahead of COP26.

The UK is already making progress in this area as can be seen by the launch of the UK Emissions Trading Scheme (ETS) in January 2021 to replace the UK's membership of the EU ETS. This will be the world's first net zero cap and trade market, delivering a robust carbon price signal and promoting cost-effective decarbonisation. The Government has committed to exploring expanding the UK ETS to the two thirds of emissions not currently covered by the UK ETS and has set out aspirations to continue to lead the world on carbon pricing in the run up to COP26 and beyond. Additionally, the Government is considering how the UK ETS could incentivise the deployment of Greenhouse Gas Removal (GGR) technologies. A Call for Evidence on GGRs was published in December 2020 seeking further information on viable technologies and potential policy levers for incentivising their deployment. When applying a cost on carbon, the Government recognises the need to understand the distributional impacts of where this cost may fall or be passed on to those less able to pay.

At the same time, the Government also recognises it will need to consider fiscal sustainability to maintain the long-term health of the public finances. As set out in the Ten Point Plan for a Green Industrial Revolution, moving forward with this transition the Government will need to ensure that the tax system encourages the uptake of electric vehicles and that revenue from motoring taxes keeps pace with this change, to ensure that the Government can continue to fund the first-class public services and infrastructure that people and families across the UK expect.

There was widespread agreement among witnesses that stamp duty land tax is economically inefficient, causing damage to the economy by affecting when and how often people buy homes. This in turn has implications for the flexibility of labour markets and for economic activity: a reduction in the volume of house transactions leads to a corresponding reduction in associated economic activity, such as home renovation and refurbishment. The government should treat stamp duty land tax as a priority for reform and should set the tax at a level that optimises revenue while encouraging home ownership. Any review should take into account the impact of any UK changes on equivalent devolved taxes.

As the report mentions, in 2014 the Government reformed SDLT on residential properties, cutting the tax for 98 per cent of buyers who pay it, unless they are purchasing additional property. The reform of SDLT was intended to improve the fairness and efficiency of the tax system as each SDLT rate is only payable on the portion of the property value which falls within each band, rather than tax being due at one rate on the entire property value.

A significant portion of residential transactions do not pay any SDLT at all because they are under the nil rate band or benefitted from first-time buyer's relief. In 2019–20, this was 34 per cent of residential transactions. First-time buyer's relief helps people get onto the housing ladder. Introduced in 2017, so far over 540,000 transactions have benefitted from this relief. To further support homeownership, purchases of additional properties are charged higher rates of SDLT, as are non-UK residents.

The SDLT holiday was introduced as a temporary measure to help give people the confidence to buy and sell during the pandemic, in turn supporting jobs that rely on the sector. The SDLT holiday was extended at Spring Budget 2021, and the £500,000 nil rate band uplift will now end on 30 June 2021.

SDLT is an important source of government revenue. It is simple to collect and administer, and helps pay for the essential services the Government provides. In 2019–20, SDLT residential SDLT raised £8.4 billion and non-residential SDLT raised £3.2 billion. At a time when the Government needs to consider long-term fiscal sustainability, any permanent cut or removal of SDLT would be likely to have a significant cost to the Exchequer. The revenue impact of SDLT cuts are illustrated by HMRC's publication of direct effects of illustrative tax changes (last published in January 2021). Furthermore, any fundamental reform of SDLT needs to take into account the potential impact on the housing market.

We believe that a tax strategy setting out what the government wants to achieve from the tax system and identifying high level objectives would have much merit. We recommend that the government should draw up a draft tax strategy for consultation.

The Government fully agrees with the importance of public engagement on tax policy and strategy. In March, the Chancellor set out the Government's medium-term plan for the tax system as part of the Government's wider economic plan at the Budget. The Chancellor outlined how tax policy, alongside spending plans, fits within broader fiscal policy as a core component of the Government's wider economic strategy over the next 5 years as part of the Budget. This set out the steps to deliver more sustainable public finances, providing certainty and stability to people and businesses and supporting a strong recovery.

In addition, where possible the Government holds consultations on major tax reforms (such as the recent one on the Fundamental Review of Business Rates and the 2015 consultation on pension tax reform) to support understanding of these measures. Publishing policy consultations alongside publication of draft Finance Bill legislation means stakeholders should be well sighted on changes before they occur and have sufficient time to engage to improve policy.

The Government recognises the benefits of tax roadmaps (e.g. previous roadmaps on Business and Corporation Tax) in providing businesses with certainty over the tax regime and allowing them to plan for the long term.

It is not always appropriate for the Government to pre-announce tax reforms given the issues caused by forestalling activity (for example: pre-announcing the super deduction would have harmed near-term investment; similarly, pre-announcing the 2014 reforms to SDLT mentioned above would have reduced housing market activity in the near-term). As a result, the use of roadmaps needs to be judged against wider objectives, risks of unintended market consequences and economic conditions.

The Government has also been engaging actively on forward-looking tax policy making. For example, the Tax policies and consultations (Spring 2021) command paper and its accompanying documents outlined a future pathway for tax administration and tax policy development.

The Government will continue to consider the case for further opportunities to set out roadmaps and plans for tax policy, to support predictability and transparency in tax policy making.

Formal minutes

Wednesday 26 May 2021

Members present:

Mel Stride, in the Chair

Rushanara Ali	Angela Eagle
Mr Steve Baker	Emma Hardy
Harriett Baldwin	Julie Marson
Anthony Browne	Alison Thewliss
Felicity Buchan	

Draft Report (*Tax after coronavirus: the Government's response*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 18 read and agreed to.

Summary agreed to.

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

Ordered, That the letter from the Financial Secretary to the Treasury, dated 30 April 2021, be appended to the Report.

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

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

[Adjourned until Thursday 27 May at 2.10 pm.

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.

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