Written evidence submitted by the Petrol Retailers Association (PRA)

Introduction

The Petrol Retailers Association (PRA) represents independently owned petrol stations who comprise 65% of the overall number of petrol station forecourts (PFS).

The PRA provides support for its members through information, services, and advice which ensures the independent fuel retailing sector can continue to grow and be competitive in an ever more challenging business environment. This work also requires the PRA to challenge and work with all appropriate government departments to ensure that the sustainability of independent forecourt retailers is properly considered.

In addition to representing fuel retailers, we also represent the major operators and equipment manufacturers of car wash equipment manufacturers of car wash equipment and have now absorbed members of the Car Wash Association (CWA) into PRA membership.

Our recommendations below focus on some of the long-term issues of the current tax system and the potential opportunities that can be realised through reform. These reforms should go beyond short-medium term objectives of revenue raising to rectify damages to public finances. Policymakers at the Treasury should consider the recovery and beyond for businesses and as Britain seeks to ‘build back better’.

The retail sector is facing a number of challenges, including the recently accelerated transition to online and the current archaic business rates structure. There needs to be reform of business rates to reflect the prevailing economic conditions with regular revaluations and a reduction in the Uniform Business Rate (UBR) to address the disparity between online retailers and those with physical premises.

Our responses to the questions below provide a more detailed examination of reform that will not only help bolster economic recovery in 2021, but will set-out a landscape for retail businesses to thrive, simplify the tax regime, and boost tax revenue. The creation of additional incentives for productivity and entrepreneurship are crucial to the government’s objective of levelling up.

Summary of Recommendations

- Any future tax changes should be simplified and provide certainty for businesses

- Economic recovery should be incentivised through tax cuts and the promotion of entrepreneurship. This would promote economic growth and lead to a broadening of the tax base. Short term tax increases would be damaging to the economy as it recovers from the effects of the Covid-19 pandemic

- Business rates need wholesale reform to reflect the prevailing market conditions and to address the evolution of the retail marketplace, notably the shift to online retail. The business rates holiday and other forms of relief should not be immediately removed to protect businesses who may only just be hanging on. During recovery, these reliefs should be gradually tapered out to avoid a cliff edge

- Increasing business rates brackets act as a disincentive to investment for many businesses in the UK

- Growth should be incentivised to encourage investment in technologies that improve energy efficiency, carbon efficiency, and overall productivity.

- The top rate of income tax should be brought down to 40%

- Corporation tax should be brought in line with the ROI to increase the UK's international competitiveness and promote economic growth and job creation

- VAT should be reduced from 20% and the number of products that qualify for relief should be cut

- Greater enforcement and freezes on excise duties should be made to close tax holes in this area

- Inheritance Tax Business Property Relief should be maintained for businesses to support independent and family owned businesses

Pressures on the Tax System

An increase in the number of people working from home is leading to substantial changes in the way tax is collected by HMRC from both individuals and employers. Forecasts for the future suggest a break-up of the working week will see employees work 2-3 days a week at home and in some cases far more. The decline in daily commuters presents another challenge and could lead to knock-on effects for those whose jobs support and serve workers and offices.

Working from home presents future challenges for businesses who may seek to expand their operations abroad. The international aspect to be considered is that some businesses may seek to employ individuals who can effectively perform the same job as a UK worker but at a reduced cost. This would further exacerbate the strain on public funds through unemployment benefit and risks affecting revenue streams from UK based businesses.

Between March and October 2020, unemployment benefit claimants rose by 1.4 million and by mid-October 9.6 million jobs had been furloughed.[1] This trend must be reversed through incentives to rebuild the workforce and ensure new entrants to the job market are supported. Correcting this could include employer's National Insurance exemptions or repurposing the apprenticeship levy to fund retraining schemes.

The substantial investment and public support during the Covid-19 pandemic has created an aura of fear among businesses as they worry about future tax increases. This fear is causing businesses to hold back on investment - a fear that is being compounded by proposed tax

[1] Coronavirus: Impact on the Labour Market. Briefing Paper 8898. 12 November 2020

raids being continually floated in the media, such as the major overhaul of capital gains tax rates, damaging business confidence and leading to less revenue.

Break-up of the working week is reducing the number of daily commuters and this has a knock-on effect for those whose jobs support and serve workers and offices

International outsourcing may lead to unemployment as businesses hire at-home workers from abroad

Incentives need to be provided for new entrants to the job market. This could be provided through National Insurance exemptions or repurposing the apprenticeship levy

Fear of future tax rises is damaging business confidence in the market

Tax Simplification & Certainty

An already volatile international marketplace, from uncertainty around Brexit and the Covid-19 pandemic, adds to the insecurity of businesses.[2] Stability and confidence are pre-requisites for investment and is a foundational element of investment for businesses. There is a need for greater certainty on taxation so that long-term business decisions can be made. Changes in the tax system should be simplified and set for the future to incentivise employers to build their workforce and invest in production.

Technological Change

The recent announcement of a ban on new Internal Combustion Engine (ICE) vehicles by 2030 and hybrid vehicles in 2035 will place pressure on individuals to purchase electric vehicles.[3] There will likely be a reduction in the amount of revenue the government can hope to gain from fuel duty as this change takes place.

The current level of UK infrastructure for high-speed Electric Vehicle (EV) charging points is insufficient to meet the government's objective for 2030 with substantial regional disparities.[4] We are aware that this is a primary objective of the government, but without the provision of incentives for businesses and companies to invest in new technologies, this is not realistic.

The expansion of Capital Allowances, Annual Investment Allowances and Enterprise Investment Schemes (EIS) would provide incentives for a transition to EV charging and more energy efficient processes among PRA members. The government should also adopt Full Expensing which is a cost-effective way to boost business. Full expensing enables firms to immediately and entirely deduct the cost of any investment from their corporation tax bill.[5] This would be an effective policy choice towards providing support for manufacturers and retailers to reach the UK's target to ban ICE vehicles by 2030 and incentivise production of EV's and charging infrastructure.

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[2] UK facing risk of 'systemic economic crisis', official paper says. The Guardian. 24 November 2020
[3] UK confirms plans to move up ban on ICE cars to 2030. Motor Authority. 18 November 2020
[4] Regional disparities in electric car charging points revealed. The Guardian. 23 November 2020
[5] Boosting Growth as the UK leaves the European Union. Centre for Policy Studies. March 2020

Capital Allowances, Annual Investment Allowances, and Enterprise Investment Schemes would provide additional incentives for a transition to EV infrastructure and investment in energy saving processes

Full expensing should be adopted to promote investment. It will greatly increase the chances of achieving the government's target for a 2030 ban on ICE vehicles and lead to the creation of EV and the contingent charging infrastructure

Business Rates

The Business rates relief holiday introduced for one year was essential for supporting retailers throughout 2020 and allowed the continuation of trading. This should be extended beyond April 2021 until Covid-19 restrictions become less onerous. Thereafter, the relief should be reduced to 50% to avoid a sudden, cliff-edge return to previous levels.

The current system is in dire need of reform. Since its introduction in 1990, increases in rates far outstrip other levies charged on businesses and there has been a failure to respond to the evolution of retail trends. There has been a clear shift in the structure of the retail market, prominently the rise in online shopping. This trend has been accelerated by the Covid-19 pandemic. Firms that operate with an online business structure however are not subject to equivalent taxation. Reform is necessary to improve the consistency in obligations for both online and bricks and mortar retailers.

Rather than penalising those businesses that have moved online, there should be further measures to make high street and 'bricks and mortar' retailers more attractive both for consumers and investors. Significant cuts to business rates, taking them back to the 34p level last seen in the early 1990s, would be a big step in the right direction.

Business rates increases present a disincentive for investment. Reform is necessary to encourage investment for growing small businesses and promote entrepreneurial activity. Stores are particularly hit when they seek to expand and their rateable value is recalculated.[6] As stores are confronted with higher business rates, they are deterred from investing which reduces economic growth and can prevent long-term improvements that may be realised through more energy efficient technology or machinery that could contribute to higher productivity.

Business rates relief should be extended beyond April 2021 until Covid-19 restrictions are lifted. After, reducing relief to 50% would avoid a sudden, cliff-edge return to previous levels

Business rates should be cut to 1990 rates of 34p to increase the attractiveness of 'bricks and mortar' retailers

Scaling of business rates should be reconsidered to encourage growth and investment

Income Tax

[6] How non-domestic (business) properties are valued. Valuation Office Agency

The top rate of income tax is too high at 45%.[7] These high rates encourage tax avoidance and act to discourage economic productivity as the higher tax rates disincentivise output from entrepreneurs.

Pushing this rate even higher would make the UK unattractive as a place to come to work, discouraging international investment, and could fuel further tax avoidance. The alternative, to lower the income tax rate, would fuel economic growth and incentivise investment from outside the UK.

An income tax rise during economic recovery after the Covid-19 pandemic would further bestow economic hardship on individual Brits and their businesses.

The top rate of income tax should be cut to 40%, taking it back to the level it remained at from 1989 until 2010

Corporation Tax

The cuts in corporation tax, beginning under the Coalition Government, were very welcome and were no doubt partly responsible for the jobs creation 'miracle' that the UK achieved during its recovery from the financial crisis. Boris Johnson's decision to scrap the proposed cut to 17% in 2019 was unwelcome as the forward guidance on an ever-decreasing headline rate of corporation tax was contributing to enhanced business confidence.

The government should announce that it is targeting a corporation tax rate of 12.5% to bring the UK into line with the Republic of Ireland and that it will achieve this rate by the end of the current Parliament, with incremental cuts in each budget from the current 19%. For example, Microsoft have recently announced further expansion with the opening of a €27 million engineering hub at its Leopardstown campus, bringing the total number employed by Microsoft in Ireland to more than 2,700.[8] By the governments own estimations, Corporate tax reductions implemented in 2010 were expected to increase investment by between 2.5% and 4.5% in the long term and GDP by between 0.6% and 0.8% with increased demand for labour.[9]

This multi-year plan should be accompanied by corporation tax simplification to provide certainty and clarity for businesses, allowing long-term business plans to be developed on the understanding that the tax burden on them will become ever lighter.

Corporation tax should be cut to bring the UK rate in line with ROI and encourage investment and job creation

The overall tax system needs simplification to provide certainty and clarity for businesses

VAT

[7] Income Tax rates and Personal Allowances. HM Government.
[8] Microsoft to create 200 jobs at new €27m engineering hub in Dublin. Irish Times. 23 November 2020
[9] Analysis of the dynamic effects of Corporation Tax reductions. HMRC & HM Treasury. 5 December 2013

Broadening of the VAT base would generate revenue to fund alternative tax reforms and provide compensation for low-income households. These reforms would increase economic efficiency and increase consumer welfare.[10]

We suggest limiting of the amount of consumption goods that qualify for reduced and zero rates which could increase the neutrality of the tax system without foregoing revenue streams.

We encourage an overall reduction in the level of VAT from its current 20%. A reduction in VAT would increase consumer spending, helping to reinvigorate the economy and support retailers.

Excise Duties

Petrol retailers collect significant amount of excise duties on behalf of the government, mainly from the sale of tobacco and tobacco related products and alcohol. Continuous increases in duty rates have driven a minority of consumers towards black market products leading to a huge tax hole for the government. The government could make use of greater enforcement and further freezes in excise duties to close these tax gaps.

Greater enforcement and further freezes in excise duties are needed to close tax gaps

Inheritance Tax

PRA members consist of multiple family owned, independent businesses. In many cases, if it were found that a significant amount of inheritance tax was required to be made, these businesses would have to be sold, ending the family and independent ownership. Business Property Relief (BPR) has been recognised as having an important role in ensuring that such businesses can pass from one generation to another.[11]

We encourage the Treasury to continue the provision of this relief to support the independent businesses across the UK that make up a large proportion of our membership. Independent owners contribute to creating a competitive environment and illustrate the entrepreneurship that represents the British economy.

BPR should be maintained to support independent and family owned businesses in the UK which make up a large proportion of retailers

Should you or your officials wish to discuss these matters further please do not hesitate to contact me.

December 2020

[10] Broadening the VAT Base. Mirrlees Review. 2011
[11] Inheritance Tax Review: Reform of Business Property Relief. Macfarlanes. 2019. Retrieved on 25 November 2020