

## Written evidence submitted by the Chartered Institute of Taxation

### 1 Executive Summary

- 1.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 19,000 members, and extensive volunteer network, in providing our response.
- 1.2 We are disappointed that, unlike the spring Budget and 'tax consultation day', subsequent tax policy making has largely ignored the tax policy making process,<sup>1</sup> with significant tax announcements (notably the Health and Social Care Levy) made outside of fiscal events, and consultation on substantial changes being condensed into multiple stages over short periods. We continue to see that, where the tax policy making process is not followed, the legislation that results fails to meet the policy aim and brings many implementation problems.
- 1.3 We remain concerned that significant changes to how unincorporated businesses are taxed (basis period reform) are being rushed through to facilitate the introduction of Making Tax Digital for Income Tax. We are concerned that, for those businesses affected, basis period reform will exchange largely one-off complexities for ongoing ones and will not provide the desired simplification if these businesses are unable to change their accounting date.
- 1.4 The spring Budget announced a number of major changes, such as to rates and allowances. Therefore, the autumn Budget was understandably 'light', which is welcome as businesses need a period of stability and certainty as we emerge from the pandemic.
- 1.5 Notwithstanding its proximity to COP26, we are disappointed that the Budget contained no significant climate change commitments, such as a consultation on a climate tax road map.
- 1.6 The CIOT and LITRG made several Budget Representations. Whilst our proposals do not appear to have been included in the Budget announcements, we remain of the view that these are areas requiring attention.

<sup>1</sup> <https://www.gov.uk/government/publications/the-new-budget-timetable-and-the-tax-policy-making-process/the-new-budget-timetable-and-the-tax-policy-making-process>

## **2 About us**

- 2.1 The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.
- 2.2 The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 2.3 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.
- 2.4 Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

## **3 Introduction**

- 3.1 The Treasury Committee has invited comments on the Autumn Budget and Spending Review 2021. The CIOT is pleased to submit these comments, which include observations from our Low Incomes Tax Reform Group (LITRG).
- 3.2 We have limited ourselves to those areas within the scope of our expertise which we consider to be the most important announcements; both in terms of their fiscal impact, and measures which particularly meet or contravene the Committee's tax policy making principles (which we have reproduced, along with CIOT and LITRG's objectives for the tax system, in appendix one). Our comments are necessarily at a general level, being prepared before the publication of the Finance Bill (and some consultation responses) on 4 November.
- 3.3 We do not normally comment upon what tax rates and allowances should be, but we do comment on their impacts and whether the policies underpinning the thresholds are meeting their objectives.
- 3.4 We have included in the appendix a table setting out the extent to which the conclusions and recommendations in the Committee's 'Tax after coronavirus' have been progressed (referring back to the content in the body of this submission where appropriate).
- 3.5 References in square brackets are to the paragraphs in the 'Red Book'. Otherwise we have sought to make clear the source of the announcement. At the end of each main section we have also included commentary on our Budget Representations.

## **4 Personal Tax**

- 4.1 [Health and Social Care Levy \[5.28\]](#)

- 4.2 Whilst not a Budget measure, this is the first fiscal event since the levy was announced, and the first time at which the revenue and spending projections have been published, so we have included some brief comments below. Although not part of income tax, it will effectively be levied on employment income.
- 4.3 The fact that such a major tax policy was announced outside the normal policy cycle is of itself noteworthy and concerning, especially given that this is a measure that received no prior consultation. We have previously been critical of ‘rabbits from hats’ at Budgets. To see one appear outside the fiscal cycle sets a worrying precedent.
- 4.4 We are concerned that the levy will exacerbate the ‘three-person problem’ by further increasing the gap between the taxes on employment and self-employment. Whilst the levy will add 1.25% to the taxes paid on self-employment, it adds 2.5% to the costs of employment, as it is charged on both the employee and the employer. Avoidance of employer National Insurance Contributions (NICs) is one of the main drivers of false self-employment, and the levy could further encourage such behaviours. The notes to the Red Book also suggest that wages are expected to be lower than they would otherwise have been as a result of the charge on employers, notwithstanding the increase in the national minimum wage.<sup>2</sup>
- 4.5 By being established separately from National Insurance (NI), and with slightly different rules, the levy represents a further complication of the tax system. The levy will, unlike NI, apply to pensioners (albeit limited to their employment income), but may set a precedent making it easier to bring pensioner earnings within the full scope of NI at some point in the future.
- 4.6 Introducing the levy without prior consultation also misses an opportunity to review some of the irregularities within our tax system, such as the differences in scope of income tax and NI,<sup>3</sup> or a closer alignment of the rules.
- 4.7 Employee Ownership Trusts (EOTs)
- 4.8 The EOT structure is used by UK businesses to convert to employee ownership. The EOT, as defined for tax purposes, provides a template for owners and advisers to follow. It benefits from tax reliefs introduced seven years ago, as a result of findings of the Nuttall Review, which removed tax obstacles to the sale of a company to an EOT, created a more level playing field in which the benefits of long-term employee ownership of trading companies might be realised, and acted as a ‘nudge’ or prompt for owners and their advisers to consider this option.
- 4.9 In general, we favour periodic review of reliefs, as of other legislative provisions, to ensure they remain fit for purpose and efficient ways of delivering their objectives. In our Budget Representation,<sup>4</sup> whilst recognising there remains strong support for the principle and broad outline of the EOT reliefs, we noted certain issues that appear to create costs for all parties, risks to the revenue and to give only limited prompts within the legislation to the employee engagement from which many of the benefits of employee ownership are understood to derive. We recommended the government should review the tax regime for EOTs to encourage take-up and discourage their abuse. We are disappointed that no commitment to such a review was announced at the Budget, but we remain of the view that it is necessary.
- 4.10 Protecting the UK tax base

<sup>2</sup> Table 5.1, line 8, p133

<sup>3</sup> Income tax is levied on all income, including employment, business, dividend and other investment income, whereas NI is only levied on the first two: employment and business income.

<sup>4</sup> <https://www.tax.org.uk/ref853>

- 4.11 The pandemic has led to short term changes in the location from which work may be carried out, with working from home being increasingly the norm throughout the pandemic. In some cases, where that home is abroad, workers have increasingly found it is possible to do their UK-based job from another country.
- 4.12 It is not yet clear whether this shift will develop into a sustained model of remote working, nor whether such a shift would see an increase in remote working being done from abroad. Also the impact will work many ways – the net result will be the outcome of many ‘swings and roundabouts’. However, it is important to assess whether the UK’s tax base may be undermined by a long-term behavioural change to working remotely from abroad and, if so, whether current tax legislation and the UK’s network of tax treaties offer the right balance in protecting UK tax revenues.
- 4.13 In our Budget Representation,<sup>5</sup> we recommended:
- The government considers the implications for the UK Exchequer of the trend towards UK employees working remotely abroad
  - Gathering data to evaluate the extent to which remote working abroad is becoming an established trend; and
  - An early high-level consultation to consider possible options for future reform.
- 4.14 No specific announcements around these issues were made in the Budget, but we strongly recommend that this whole area is given due attention.
- 4.15 Insofar as reform in this area would involve the renegotiation of tax treaties, there is something to be said for acting sooner rather than later, building on the impetus that has been achieved in the corporate tax area because of the OECD and ‘Biden’ proposals. There could potentially be more at stake from shifts in employment income taxing rights than those that have affected corporation tax.
- 4.16 Loan charge review
- 4.17 LITRG submitted a budget representation on the loan charge<sup>6</sup>, highlighting that despite the easements introduced by the Morse Review, many people have still not met their obligations (either at all, or fully) in relation to the loan charge. We suggested a fresh review was needed as things seem to have reached an impasse.
- 4.18 LITRG focus resources on the low-income, unrepresented workers who are affected by the loan charge, and who, for many various reasons haven’t met their obligations. Nevertheless, we are aware that a wider group of people are affected by the loan charge and that they also face (probably different) issues that are preventing them from finalising their loan charge affairs.
- 4.19 We understand that there are several groups, representing different pockets of the loan charge population, who are working on proposals that they feel could help bring finality for the individuals involved.
- 4.20 By asking for a review, we want to open an opportunity for the separate groups to be heard and to formally put forward their ideas to HMRC / Ministers in terms of what exactly is hampering progress and how to move forward with resolving outstanding cases quickly, easily and fairly for all involved. For example, we think things could be eased for many low-income people if HMRC offered a more bespoke service and were less restrictive in how they were using and applying the Morse recommendations.

<sup>5</sup> <https://www.tax.org.uk/ref856>

<sup>6</sup> <https://www.litrg.org.uk/latest-news/submissions/211006-budget-representation-2021-loan-charge>

- 4.21 As we noted in our representation, HMRC pausing activity and conducting a review would allow for a fresh examination of all of the issues across the whole loan charge population. No announcement for such a review was included in the Budget, which is regrettable, as we believe that the government rigidly pursuing the current path is not beneficial for either taxpayers or HMRC.
- 4.22 Assignment and enforcement of loans which have been the subject of the loan charge
- 4.23 Over the last 12-18 months, many individuals have been contacted about the repayment of a loan that originated in a disguised remuneration (DR) scheme. The organisations (or their solicitors) contacting the individuals affected now claim to own or control their loans, and are seeking to enforce their repayment. This is happening even though tax legislation regards the loans as taxable income (being pay for work done - ie not genuine loans), and the individual has often become subject to the loan charge, or has come to a settlement agreement with HMRC on the outstanding tax.
- 4.24 In our Budget Representation,<sup>7</sup> we recommended that the government consults with interested stakeholders with a view to introducing legislation to prevent assignment and/or enforcement of these loans. No consultation was announced in the Budget, but we think that the time has come to protect employees now being pursued for repayment of their pay for work performed, especially as many are vulnerable individuals on low income, some of whom may have been unaware that they were part of a packaged scheme of abusive tax avoidance, or in too weak an economic position to challenge the arrangement insofar as they were aware.
- 4.25 The high-income child benefit charge (HICBC) and discovery assessments
- 4.26 Unfortunately, representations from LITRG<sup>8</sup> and the Association of Taxation Technicians<sup>9</sup> calling for an increase to the HICBC threshold (and other changes related to the HICBC) were not acted upon in the Budget. The adjusted net income threshold therefore remains at £50,000, which means that basic-rate taxpayers continue to be potentially affected despite the original policy intent that it would only affect households with higher-rate taxpayers. This is disappointing, as the current threshold would seem very difficult to defend.
- 4.27 The HICBC is a good example of a tax that was introduced without enough regard to how complex it was going to be to design it into the current tax administration framework (and hence how easy it would be for people to understand it and comply with it), because there is no interaction between the PAYE and self-assessment (SA) systems in HMRC or with other government departments. There has been significant non-compliance with the HICBC leading to many taxpayers suffering penalties, leading to a loss of trust in the tax system. Many HICBC penalties were cancelled or refunded by HMRC<sup>10</sup> accepting that taxpayers had a reasonable excuse. This is surely an indicator of the complexity of the charge and lack of awareness amongst taxpayers. Recently, HMRC's power to assess the HICBC on taxpayers who have failed to report it on a self-assessment tax return has been rejected by the Upper Tribunal in its decision in the case of Jason Wilkes<sup>11</sup> which held that the discovery assessment provisions cannot be construed as extending to the HICBC. Now the Government is attempting to fix this problem through the Finance Bill by retrospectively taking away protections that some taxpayers may have as the law now seems to stand. Yet, child benefit claims data is data that the Government holds and problems could have been avoided by automating the systems by joining up tax and benefit data

<sup>7</sup> <https://www.tax.org.uk/ref855>

<sup>8</sup> <https://www.litr.org.uk/latest-news/news/211008-press-release-raise-income-threshold-child-benefit-clawback-60000-HICBC>

<sup>9</sup> <https://www.att.org.uk/sites/default/files/Association%20of%20Taxation%20Technicians%20-%20HICBC%20comments.pdf>

<sup>10</sup> Review for High Income Child Benefit Charge penalty cases concludes - <https://www.gov.uk/government/news/review-for-high-income-child-benefit-charge-penalty-cases-concludes>

<sup>11</sup> <https://www.gov.uk/tax-and-chancery-tribunal-decisions/the-commissioners-for-hm-revenue-and-customs-v-jason-wilkes-2021-ukut-0150-tcc>

and HMRC automatically imposing the HICBC once people have tripped over the threshold. If a system cannot be designed to administer a tax, then that strongly calls into question whether that tax was sensible in the first place.

## 5 Pensions and savings

### 5.1 Pensions tax relief administration: Top-up for low earners in Net Pay arrangements [5.34]

5.2 LITRG has been asking government to take action to address this pension inequality for several years, so the announcement, which will see a top-up payment made to those affected, is welcome.

5.3 However, this top-up will not apply until the 2024/25 tax year: some 2 ½ years away. We understand this is because it needs to be incorporated into HMRC's already busy IT programme. It is disappointing that, having been a Conservative manifesto pledge in 2019, and despite LITRG's ongoing petitioning, it will have taken five years to implement. It also seems that those affected will need to take some sort of action to secure a top-up payment, which may discourage people from accessing the top-up. Indeed the Government's estimates of the cost of this measure in the first two years appear to assume that less than a quarter of those entitled to the top-up will claim it.<sup>12</sup> We urge HMRC to ensure the process is accessible, simple and automated as far as possible.

5.4 There are also several points of detail to be determined, such as the nature of the payments and how they will be treated by claimants of means-tested benefits.

### 5.5 Employment Taxes and Pensions Tax Regime

5.6 The COVID pandemic, and shifting working patterns, have highlighted several anomalies and quirks with the existing employment taxes regime. In our Budget Representation,<sup>13</sup> we highlighted a number of areas requiring attention, such as household expenses, travel costs and employer reimbursements. No announcements of a review of such areas were included in the Budget, and we would encourage the government to address these issues.

5.7 In that same representation, we also outlined several issues with the pensions tax regime, and again we recommend that these areas are reviewed.

### 5.8 Taxation of public service pension reform remedy (McCloud judgment)

5.9 The McCloud age discrimination remedy is complex in both nature and design. Tax years from 2015/16 to 2021/22 will need to be revisited and the effects on annual allowance and lifetime allowance charges, and Scheme Pays elections, will need to be revisited for each of those years. There will be winners and losers.

5.10 While the proposed measure to provide powers to amend the pensions tax legislation to effect appropriate remedies is welcome,<sup>14</sup> much of the detail is still to be determined and will be included in regulations. Cross-government department collaboration and external consultation with affected parties is paramount, so that a solution is reached which has the end user (the pension scheme members) in mind. In particular, it will be

<sup>12</sup> Page 135

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1029974/Budget\\_AB2021\\_Web\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1029974/Budget_AB2021_Web_Accessible.pdf)

<sup>13</sup> <https://www.tax.org.uk/ref854>

<sup>14</sup> <https://www.gov.uk/government/publications/taxation-of-public-service-pension-reform-remedy>

important to not just address the technical issues identified by the government, but also the practical aspects, such as how pension scheme administrators and their members report to HMRC the resulting changes to members' pension contributions and rights.

## 6 Corporation tax reliefs

### 6.1 Research & Development (R&D) tax relief reform [5.38]

6.2 Following the consultation launched at Spring Budget 2021, as announced at Autumn Budget 2021, R&D tax reliefs will be reformed to support modern research methods by expanding qualifying expenditure to include data and cloud costs, to more effectively capture the benefits of R&D funded by the reliefs through refocusing support towards innovation in the UK, and to target abuse and improve compliance. These changes will be legislated for in Finance Bill 2022-23 and take effect from April 2023. Further details of these changes and next steps for the review will be set out in due course.

6.3 We have understood for some time that there is official concern about some advisers to companies in the R&D field engaging in such practices as excessively 'pushing the boundaries' of what expenditure can be claimed for. The CIOT and six other professional bodies introduced 'topical guidance' in this area<sup>15</sup> applying the principles of our overall ethical codes to the issues in this sector. Of course, the potential impact of this initiative is limited to the memberships of the professional bodies concerned. We presume that these continuing issues are and will remain a factor in the continuing review of the effectiveness of R&D credits; we welcome this and look forward to engaging with the government to tackle them.

6.4 The scope of R&D credits is limited by rules on 'subsidised expenditure' and 'subcontracted expenditure', broadly to ensure that credits are not given twice for the same expenditure, or in cases where there has already been a governmental or similar subsidy. We are concerned that these rules are currently being incorrectly interpreted by HMRC, attempting to deny the more generous relief for Small and Medium Sized Enterprises, for example, in any cases where the R&D is undertaken to honour a profitable contract. In our view, if the current interpretations being pursued by HMRC are correct in law, then the law is failing to give effect to the purpose of the reliefs, and should be reformed. Our sense is that these interpretations are frustrating legitimate claimants and failing to curtail (if this were the intention) the bad practices referred to in the last paragraph.

### 6.5 Annual Investment Allowance extension [5.39]

6.6 It was announced in the 2018 Budget that the Annual Investment Allowance (AIA) would be temporarily increased to £1m, for the period 1 January 2019 to 31 December 2020. In November 2020 that temporary cap was extended to 31 December 2021. At the Autumn Budget, the Chancellor announced that this temporary £1m level of the AIA would be extended to 31 March 2023. This means that the AIA will have been 'temporarily' set at £1m for over four years.

6.7 Prior to the temporary increase, the level of AIA has changed five times in less than eight years, ranging from £25,000 to £500,000. Tinkering constantly with rates and allowances in unexpected ways undermines the principles of stability and certainty that taxpayers need, and reduces the international competitiveness of the UK's tax system. The right level for AIA is a matter of political judgment, but it is damaging if it is repeatedly

<sup>15</sup> <https://assets-eu-01.kc-usercontent.com/220a4c02-94bf-019b-9bac-51cdc7bf0d99/a40c64ee-d1e7-4d4b-afc8-d33d8f75c656/200601%20R&D%20Topical%20Guidance%20-%20CIOT%20Final.pdf>

altered, and causes complexity where a business's accounting period spans changes in the AIA. Most businesses cite certainty as more important than the precise amount of relief available, and putting the AIA on a more permanent footing would boost investor and business confidence at relatively modest cost to the Exchequer.

## **7 Business rates**

### **7.1 Business Rates [5.44]**

7.2 HM Treasury published its final report on the review of business rates in England alongside the Budget. Changes announced included freezing the business rates multiplier for a second year (from 1 April 2022 to 31 March 2023), an extension to the temporary relief for retail, hospitality and leisure businesses, proposed new reliefs for green technology and property improvements, and confirmation that from 2023 business rates revaluations will take place every three years instead of every five. Overall the new reliefs and exemptions will be welcome to business, particularly in response to the pandemic, but will undoubtedly add further to the existing complexity of the business rates system.

7.3 The exemption of solar roof panels and other green technology from 2023 will help incentivise businesses to invest in green energy technologies, but there is a risk that companies already in the process of doing this may now decide to put their investment plans on hold for eighteen months to take advantage of the scheme.

7.4 The new improvement relief (taking effect in 2023) will be for eligible properties and limited to twelve months, with details being subject to a future consultation and a review in 2028. While the relief may help address a long-term concern about disincentivising business expansion and investment, it would be similarly perverse if this new relief encouraged businesses to delay making positive charges to their property.

7.5 We are pleased to see that the government has recognised the need to reconsider the transitional adjustment scheme, the aim of which is to smooth out revaluations. There is a tension between the continuation of transitional relief and the desire to allow changes in economic conditions to feed through to business rates more rapidly as a result of the proposed three-year revaluation cycle.

### **7.6 Online Sales Tax (OST) [5.45]**

7.7 We are pleased that the government has announced a consultation to 'continue to explore the arguments for and against a UK-wide OST' rather than simply proceeding with such a tax. We hope that this will be a stage 1 consultation to genuinely explore these issues, rather than a stage 2 consultation around its implementation.

7.8 It is stated that the revenue from any OST would be used to reduce business rates for retailers in England. We would recommend that the economics of such a tax are explored. We believe that much of the burden of business rates is borne economically by landowners, yet it is likely that the burden of an OST would be mostly borne by consumers.

- 7.9 Another factor to bear in mind is whether the UK really needs an extra tax (as opposed to adapting existing taxes, such as VAT). The Chancellor referred eight times in his speech to tax simplification, but an OST could be the sixth new tax in the space of just a few years.<sup>16</sup>

## 8 Property tax

### 8.1 Residential Property Developer Tax (RPDT) [5.46]

- 8.2 The Autumn Budget confirmed that RPDT will be charged at 4% on trading profits exceeding an annual allowance of £25 million, the revenue raised (a target of £2bn over a decade) being used to help fund remedial work to address unsafe cladding. The government has said it intends to repeal the tax once sufficient revenue has been raised.

- 8.3 RPDT was announced by the Housing Secretary on 10 February 2021, outside the normal budget process, and without prior consultation. It is chargeable on the profits from the development of residential property in the UK, and will apply to accounting periods ending on or after 1 April 2022; just 14 months after its announcement.

- 8.4 We remain concerned that the timescale for developing and implementing an entirely new tax is very short, for both the sector to adjust and for HMRC to implement successfully. We are already aware that one major software provider to the property sector is not currently considering updating its products to support RPDT. We are pleased the Autumn Budget confirmed that the tax will be included in the corporation tax returns of those companies liable to pay it, and that the clear message from the consultation to align the new tax with corporation tax more widely and use existing tax definitions in the design of the tax has been taken on board.

- 8.5 RPDT is stated to be time-limited but its closure depends on active repeal. Our preference is for a sunset clause so positive action is required to renew the tax. The optimal design of a time-limited tax is likely to differ from that of a tax that becomes a permanent feature of the tax system should intentions change.

- 8.6 A key concern in the technical consultation on the draft legislation was the mandatory requirement that pre- and post-commencement profits have to be time apportioned. For a company with a 31 December 2022 year end that sold a development pre-commencement in say, January 2022, part of those profits will be brought into charge whereas the same profits for a company with a 31 March 2022 year end will fall out of scope. We think there should be an option for just and reasonable apportionment to address this effect.

### 8.7 Capital Gains Tax (CGT): property payment window [5.47]

- 8.8 We welcome the extended deadline for reporting and payment of Capital Gains Tax (CGT) on the disposal of UK land and property from 30 days to 60 days from completion, in line with a recommendation from the Office of Tax Simplification. We also welcome the proposed amendment to correct an anomaly that obliges a UK taxpayer to declare capital gains by reference to both the residential and commercial portions of a mixed-use property under the 60-day reporting, despite the policy intent that CGT is only returned under the 60-day service on the residential portion of the property.

- 8.9 However, we remain concerned that the system for reporting these gains is difficult for taxpayers to interact with because it was designed as an 'add-on', independent of HMRC's mainstream systems. This means there

<sup>16</sup> 15 new taxes have been introduced since 2000, not counting new Scottish and Welsh taxes. See <https://ciotmktgprodeun.azureedge.net/online-sales-tax-would-mean-21-new-taxes-since-2000>.

have been significant teething problems with the operation of the system for some groups, and is a salutary lesson that tax changes are no longer simply words in legislation, but often involve the creation of software or adaptation of IT systems. That is why proper consultation, and an adequate period of testing, is vital if these teething problems are to be avoided.

## **9 Energy, environment and transport taxes**

### **9.1 Aviation tax reform [5.48]**

9.2 Recognising that the reforms largely relate to rates and bandings (on which we don't normally comment) we are addressing this from a climate change perspective.

9.3 As such, we welcome the increase in the amount of Air Passenger Duty (APD) paid on long-haul flights, but question whether the decision to introduce a new lower rate of APD on UK domestic flights is compatible with the UK's climate ambitions, while such flights are not powered by sustainable aviation fuel (SAF) and other aviation decarbonisation strategies are still works in progress.

9.4 While a higher rate of APD for ultra-long-haul flights may help to better link the rate of tax paid with emissions produced, the risk of having a lower rate of APD for domestic flights is that it may encourage more consumers to choose air over other available modes of transport like rail, which currently generate lower carbon emissions.

9.5 The Government's 10-point plan for addressing climate change looks to research into 'greener fuel' to bring the aviation sector to a lower-emission future. We welcome that £180 million has been earmarked to start the development of commercial-scale UK SAF plants, which forms a major part of the decarbonisation strategy for the aviation sector.

9.6 As there is no governmental source that provides information on the anticipated impact to CO2 emissions for these two changes to APD rates, it is difficult to provide further analysis and we recommend that this data is made available. However, we note that there is an anticipated loss of revenue from 2023 onwards of £30m+ when combining the two rate changes.<sup>17</sup> This also means that there are no excess revenues that would be expected to be contributing to the funding for sustainable aviation fuel plants.

9.7 We also note that APD is in the process of being devolved to Scotland. The Scottish Government previously had a proposed policy of reducing the APD burden by 50% and eliminating it completely when finances allowed. However, in 2019, following the Scottish Government's declaration of a climate emergency, it abandoned this policy. The announcement appears to entrench different approaches by the two governments. We think it is important that there is clarity over how and when the issues that have prevented devolution of APD from progressing will be resolved. This would give those responsible for administering and collecting the tax more certainty to allow them to plan ahead. It is not clear from the information in the Red Book the reasons for the anticipated £5m drop from 2025/26 onwards.

### **9.8 Climate change and tax information and impact notes**

<sup>17</sup> Line 31, page 135 of the Red Book.

- 9.9 Currently, environmental and climate impacts are simply included towards the end of TIINs under 'Other impacts'.<sup>18</sup> We are concerned that this risks reducing consideration of these issues to an 'after-thought'.
- 9.10 We think now is the time for climate / environmental impacts to have their own section in tax information and impact notes (TIINs). At a minimum, this will help ensure that policy makers have to properly consider such factors. But ideally, for all taxes, it should be necessary to state how the measure complies with the government's climate targets.

## 10 Indirect Tax

### 10.1 Alcohol Duty reform [5.58]

10.2 We welcome the relative simplicity of the proposed new regime, and the commitment to a simpler scheme of administration. Further, we welcome that stakeholder feedback has been taken on board in shaping the reforms to date, and that stakeholder consultation continues. It would be beneficial for the consultation to consider the objectives of the tax and how best to reconcile / balance them with health and budgetary concerns ie curtailing alcohol abuse, the need to raise revenue, along with helping the hard-pressed hospitality / leisure sectors.

10.3 In the new consultation, we note in the section headed 'Draught products rates' ([paras 4.22-4.26](#)) there are proposed changes to reduce rates for <8.5% products sold in large containers, in a similar way to Australia. We would anticipate that industry feedback will identify whether this is the best way of targeting relief at a hard-pressed sector, though we would have liked to understand where the benefit will go. The cost of the reform is dwarfed by the cost of the freeze in duties per the Red Book (for the third Budget in a row); we do not comment on rates but would this benefit from open economic analysis?

10.4 Based on member feedback, we still have concerns around the existing high level of burdens on obtaining excise approvals. We note that the ongoing consultation allows stakeholders further opportunity to propose administrative simplifications which we would hope are able to shape the future administrative policy for alcohol duty.

## 11 Tax administration and non-compliance

### 11.1 Basis Period Reform [5.70]

11.2 We are pleased that the government has deferred the start date for basis period reform by one year, something we called for in our letter to the then Financial Secretary in August.<sup>19</sup> However, we remain concerned that changes to what has been described as the 'fundamental building blocks of the tax system'<sup>20</sup> are being rushed through to facilitate the introduction of Making Tax Digital for Income Tax (which we comment on below).

<sup>18</sup> See [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/872428/Annex\\_C\\_-\\_impact\\_assessments\\_in\\_tax\\_information\\_and\\_impact\\_notes.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/872428/Annex_C_-_impact_assessments_in_tax_information_and_impact_notes.pdf) which states that they should consider 'wider environmental impact and carbon assessment'.

<sup>19</sup> See <https://www.tax.org.uk/basis-period-reform-and-mtd-ciot-letter-to-financial-secretary-to-the-treasury>

<sup>20</sup> See <https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation>, section 'Foreword'.

- 11.3 We are concerned that, for those businesses affected, basis period reform will exchange largely one-off complexities for ongoing ones and will not provide the desired simplification if these businesses are unable to change their accounting date to 31 March / 5 April. Whilst under existing rules there are some complications in the opening and closing years of a business, or when it changes its commercial accounting period end, these arise only at those specific points in a business's life and will mainly affect the minority of businesses that do not use the tax year as their accounting period end. Under the new rules there will be continuing compliance issues around the need to apportion the results of two commercial accounting periods into each tax year, and estimating – and subsequently correcting - the results of the second of those commercial accounting years.
- 11.4 Overall, the existing rules are well understood by tax professionals, therefore the apparent simplification rationale for the measure seems unconvincing in the context of the larger more complex businesses who will have access to professional advice. Evidence from HMRC suggests that 20% of businesses who do not use the tax year are unrepresented. This includes approximately 75,000 sole traders.<sup>21</sup> LITRG anticipate the majority of these will change their accounting period to align with the tax year and so simplify their tax affairs before the move to Making Tax Digital for Income Tax. But this will only happen if they are aware of the impending change to the basis period rules and understand what the implications will be for their business, in order that they can make an informed decision whether to change their accounting period, or not. It is therefore essential that HMRC provide targeted and timely communications, guidance and support for this section of the taxpayer population. The reform will also simplify tax for many new unincorporated businesses, provided they are commercially able to prepare accounts on a tax year basis.
- 11.5 There are numerous knock-on effects in the transitional period which also need addressing to prevent unfair outcomes and the Government has decided to make some changes in response to issues raised during the consultation.<sup>22</sup> Some of these are dealt with in the Finance Bill, and others (to do with minimising burdens caused by having to submit tax returns containing provisional figures) will be explored and a decision will then be made whether to introduce them, ahead of the transition year 2023/24. The changes in the Finance Bill include treating any excess profits arising during the transition year as a one-off separate item of taxable income, rather than as part of a business's normal trading income. The government says that this treatment will minimise the impacts on allowances and means-tested benefits that were raised during the consultation. However, our initial examination of the detail leads us to believe that the measure will not be as effective as hoped, for example it may not minimise the full impact on allowances. The government has also decided to extend the carry-back of loss relief arising due to excess overlap relief in the transition year from one to three years. This provides welcome flexibility around use of excess overlap relief for those taxpayers unable to benefit from full relief in the transitional year due to the level of their income.
- 11.6 It is true that under the existing system businesses with commercial accounting year ends early in the tax year have benefited from effective deferral of tax payments on a given quantum of commercial profits. There is no particular justification for this but the proposals for reform are not the only way in which it might have been addressed. Some such businesses may change their year end to the tax year end, once this benefit is no longer available and to avoid the compliance difficulties mentioned above. Other such businesses, particularly those with international connections, or seasonal businesses, may be practically unable to do this and will suffer those burdens.
- 11.7 Making Tax Digital (MTD) for Income Tax Self-Assessment (ITSA) [5.72]

<sup>21</sup> HMRC's evidence to the House of Lords Finance Bill Sub-Committee on 28 October 2021 at 11:42.

<sup>22</sup> <https://www.gov.uk/government/consultations/basis-period-reform/outcome/summary-of-responses#next-steps>

- 11.8 On 23 September 2021, when it laid the detailed Regulations, the government announced that MTD for ITSA would be deferred a year to April 2024 for sole traders and landlords, and to April 2025 for general partnerships. The associated reform of penalties will also be deferred.
- 11.9 Following George Osborne's declaration of the 'death of the tax return' in the March 2015 Budget, and the unveiling of MTD later in 2015, the project has been the subject of necessary delays and alterations. We remain convinced that this is a direct result of the tax consultation process not being followed. No relevant prior consultation took place before either announcement, and the subsequent consultation which took place commenced at stage 2, after the government had committed to the project and the overall direction of travel.
- 11.10 Whilst we are in favour of digitisation where it brings benefits to taxpayers, agents and HMRC, we remain unconvinced that MTD will deliver any of the alleged benefits. LITRG are especially concerned about the low turnover threshold trigger entry into MTD (£10,000) and the fact that HMRC will not be producing their own free software, instead choosing to rely on third parties. However, the further delay to the implementation timetable will provide more time for education, preparation and testing, and we are hopeful that this time will be used productively.
- 11.11 Notification of uncertain tax treatment by large businesses
- 11.12 The Budget confirmed that the government will introduce the new compliance burden for large businesses, requiring them to notify HMRC where they have adopted an 'uncertain tax treatment', from April 2022. Uncertain tax treatments will be defined by two criteria: that a provision has been made in the accounts for the uncertainty, or that the position taken by the business is contrary to HMRC's known interpretation (as stated in the public domain or in dealings with HMRC).
- 11.13 We are pleased that the third criterion which was included in draft legislation published in the summer - that of where there is a substantial possibility that a tribunal or court would find the taxpayer's position to be incorrect - will not be included (although the government says it is still considering this trigger for possible inclusion later).
- 11.14 That the third trigger is not being introduced, at least at the outset, shows that the government has listened to stakeholders. There has been significant engagement with HMRC and HMT, and a willingness to discuss the concerns we raised throughout the consultation process. Nevertheless, because of the starting point for the measure (stage 2 of the tax consultation framework), notwithstanding the improvements that have been made, we remain unconvinced that the measure will achieve the stated policy aims<sup>23</sup> effectively or proportionately.

## **12 Other measures**

### **12.1 Universal Credit (UC) taper and work allowance [2.94, 5.6]**

<sup>23</sup> The objective is to reduce the legal interpretation portion of the tax gap. The measure aims to ensure that HMRC is aware of all cases where a large business has adopted a treatment with which HMRC may disagree and accelerate the point at which discussions occur on uncertain tax treatment.

- 12.2 We welcome the changes announced to UC and the national living wage. Changing the UC taper rate to 55% means that most<sup>24</sup> low-income workers will keep more of every pound that they earn. Moreover, those who qualify for a work allowance will get to keep even more when work allowances increase by £500 a year<sup>2</sup>. Some people will become entitled to some UC for the first time as a result of the changes.
- 12.3 The changes to UC don't appear to be replicated in tax credits which may mean that some tax credit claimants may be better off under UC once they are implemented. However, the changes are complex, they interact with tax and national insurance and they affect people differently depending on their circumstances. It is very important for people to seek specialist welfare rights advice before making a claim for UC if they are already in receipt of tax credits or any other benefits UC is replacing.<sup>25</sup>
- 12.4 For many years, LITRG has highlighted the high marginal deduction rates faced by low-income workers in receipt of UC and tax credits. High marginal deduction rates reduce work incentives and, as the Chancellor acknowledged in his speech, the UC taper rate is therefore effectively another tax for those on the lowest incomes. Changing the taper rate and increasing the work allowance is a better, more targeted way to help low-income workers compared to, say, increasing the tax personal allowance (which has no benefit for those already below it, and for those above, the benefit may be reduced by the UC taper rate).
- 12.5 As a general point, LITRG would like to see better co-ordination of policy making across government departments as a decision in one area of law can have knock-on effects in other areas, often affecting the low-income, unrepresented population<sup>26</sup>.

<sup>24</sup> Those who earn under the work allowance do not have the taper applied to their earnings so will not benefit from this change. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1028814/Budget\\_AB2021\\_Web\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1028814/Budget_AB2021_Web_Accessible.pdf)

<sup>25</sup> This is because if a tax credit claimant (or a claimant of any legacy benefit universal credit is replacing) makes a claim for universal credit, their tax credit award will be automatically terminated even if they are not entitled to any UC (for example because they have capital above the threshold). HMRC say that in this situation they cannot go back to tax credits as no new tax credits are possible (with one exception for frontier workers).

<sup>26</sup> See LITRG's December 2020 paper, *A better deal for the low-income taxpayer*, pages 44 and 45: <https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer>

## Principles of tax policy

The Committee's 2011 report recommended that tax policy should be measured by reference to the following principles. Tax policy should:

1. **be fair.** *We accept that not all commentators will agree on the detail of what constitutes a fair tax, but a tax system which is considered to be fundamentally unfair will ultimately fail to command consent.*
2. **support growth and encourage competition.**
3. **provide certainty.** *In virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs. **Certainty about tax requires***
  - i. **legal clarity:** *Tax legislation should be based on statute and subject to proper democratic scrutiny by Parliament.*
  - ii. **Simplicity:** *The tax rules should aim to be simple, understandable and clear in their objectives.*
  - iii. **Targeting:** *It should be clear to taxpayers whether or not they are liable for particular types of charges to tax. When anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system.*
4. **provide stability.** *Changes to the underlying rules should be kept to a minimum and policy shocks should both be avoided. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.*
5. *The Committee also considers that it is important that a person's tax liability should be easy to calculate and straightforward and cheap to collect. To this end, tax policy should be **practicable**.*
6. *The tax system as a whole must be **coherent**. New provisions should complement the existing tax system, not conflict with it.*

## CIOT's objectives for the tax system

Our stated objectives for the tax system have much in common with the Committee's tax policy principles, and include:

- A legislative process which translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

## LITRG's principles for the tax system

1. Clear and up to date
2. Simple
3. Equitable
4. Just
5. Accessible and responsive
6. Joined up
7. Inclusive

**Conclusions and recommendations of Tax after Coronavirus (edited)**

(Initial paragraph numbers refer to Conclusions and Recommendations section)

<b>Recommendation / conclusion</b>	<b>Progress</b>
6. ... As part of its recovery from the coronavirus pandemic, the UK has an opportunity for a comprehensive review and reform of the tax system. (Paragraph 50)	<p>There are few signs that tax reform is high up the Government's agenda at present.</p> <p>This was not a tax reforming Budget, and nor was the spring Budget. The Government has made significant tax announcements in both Budgets (and in between) but these have been changes to rates and freezes to thresholds, both aimed at revenue-raising, rather than changes to the structures of taxes.</p> <p>A limited exception to this is the restructuring of the alcohol duty regime. Also worth noting are the ambitious plans to modernise HMRC's administration of the tax system (paragraph 35, below), though these do not constitute tax reform as such.</p>
7. 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. ... (Paragraph 56)	The Government has done this.
8. The Annual Investment Allowance ... 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. (Paragraph 62)	At Autumn Budget 2021 the Government extended the higher level (£1 million) AIA until 31 March 2023. This is welcome but, as the committee noted in the Tax after Coronavirus (TAC) report, setting a permanently high rate would provide more certainty, to the benefit of business. (See our comments in section 6 above)
9-11. Paragraphs 9-11 summarised the committee's conclusions on a windfall tax on pandemic profits, and a wealth tax (either annual or one-off).	There is no sign the Government is considering either a windfall tax on pandemic profits, or a wealth tax.
12. The evidence submitted to this inquiry indicates that raising tax revenue quickly and at a large scale is likely to require higher contributions from one or more of income tax, national insurance and VAT... It is clear to the Committee that the ['tax lock'] manifesto commitment of the Conservative Party will come under pressure under the current circumstances. (Paragraph 93)	This prediction has come to pass. Employer and employee national insurance contributions have, of course, both been increased by 1.25% by virtue of the Health and Social Care Levy. (See our comments in section 4 above)

<p>13. Based on the evidence we heard and received, we conclude that income tax is more efficient than some other taxes and we do not see a pressing need for reform at this time. ... We note that the Government could raise revenue simply by freezing income tax thresholds, and that such a change would cause minimum economic distortion. (Paragraph 97)</p>	<p>In the spring Budget the Chancellor announced the income tax personal allowance and higher rate threshold would be frozen until 2026, raising more than £8 billion a year by the end of that period.</p>
<p>15. ... a moderate increase in [corporation tax] rate could raise revenue without damaging growth, especially if balanced with fiscally appropriate measures to help business, such as enhanced loss relief and capital allowances. However, it is clear that a very significant increase in the rate would be counterproductive. (Paragraph 116)</p>	<p>The Government announced a significant increase in the main rate of corporation tax in the spring Budget, rising from 19% to 25% in April 2023. Whether this increase is 'moderate' is open to debate.</p> <p>While this was accompanied by more generous capital allowances (including the 'super deduction') and enhanced loss relief (for carrying back of losses) these are temporary measures which will run out before the corporation tax increase takes effect.</p>
<p>16. 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. (Paragraph 123)</p>	<p>The Government has rejected the suggestion of a further review of this area.</p> <p>Its five-year freeze of the lifetime allowance will reduce its size in real terms, making the relief less regressive.</p> <p>We welcome the Government's proposal to tackle the net pay pension anomaly, albeit not until 2024. (See our comments in section 5 above)</p>
<p>17. We strongly believe that a major reform of the tax treatment of the self-employed and employees is long overdue ... The review should incorporate the benefits which accrue upon payment of NICs and other taxes as well as the level, the incentives and the interaction of such taxes. It should look as far as is possible to eliminate the so-called 'three-person problem' altogether. (Paragraph 139)</p>	<p>Notwithstanding the Chancellor's remarks at the launch of the Self-Employment Income Support Scheme (referenced in paragraph 126 of TAC) the Government has not so far made any move to reform taxes in this area, or even to undertake a review. This is disappointing.</p> <p>Because the health and social care levy (and the transitional national insurance increase) will be levied on both employers and employees, but only once on the self-employed, it will exacerbate the 'three-person problem'.</p>
<p>18. We believe that if the tax advantages of self-employment were to be reduced, then the tax advantages of running a limited company should be considered for reduction relative to the taxation of employees under PAYE. (Paragraph 142)</p>	<p>Limited progress. Increasing corporation tax to 25% will reduce the tax incentive to incorporate for some, but retaining the rate at 19% for businesses with profits of £50,000 or less misses an opportunity to reduce the imbalance more generally.</p> <p>By increasing rates of dividend tax by 1.25% alongside the health and social care levy / national insurance</p>

	increase, the Government are at least ensuring the tax advantages of incorporation do not grow.
19. 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 wholesale merger of national insurance contributions and income tax, the Government should consider what can be done to remove the distortions gradually through time. (Paragraph 146)	<p>No progress in this area unless you think that the extension of the health and social care levy – which otherwise taxes earnings as national insurance does – to pensioners’ employment income (but not pension income) constitutes a first step to extending the scope of national insurance. The Government have not indicated that this is their intention.</p> <p>We remind the committee that, in a 2016 report, the Office of Tax Simplification proposed aligning the bases of income tax and national insurance, and the then Chancellor, Philip Hammond, agreed in his response<sup>27</sup> that ‘there are potential gains from moving NICs onto an annual basis’ but because it would be ‘a major upheaval... I do not consider now to be the right time to make this major reform’.</p>
20. We believe that when reviewing the burdens of taxation for the employed and self-employed and limited companies, the Government should also review the taxation of pensions and the tax relief applicable to pension payments. (Paragraph 148)	The Government have not initiated any review in this area.
21. ... We strongly approve of the Government’s approach in seeking international agreement on taxation of companies providing digital services and, where international agreement is reached, maintaining its commitment to abolishing the digital services tax in favour of any such agreement. (Paragraph 155)	We note with approval the agreement by 136 countries, including the UK, via the OECD/G20 Inclusive Framework, of significant reforms to the taxation of the largest multinational companies, including the tech giants, including a global minimum tax rate.
22. 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. (Paragraph 156)	We also note with approval the agreement signed on 21 October by the UK, four other European countries and the United States, setting out how digital services taxes, including the UK’s, will be removed as the new rules are adopted.
23. Based on evidence to the Committee, we believe that there is a compelling case for the reform of capital taxes. (Paragraph 164)	We see no evidence that the Government are considering significant reforms in this area. The Government has not yet responded to the recent reports published by the Office of Tax Simplification.

<sup>27</sup> See

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/571265/OTS\\_NICS\\_CX\\_letter.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/571265/OTS_NICS_CX_letter.pdf)

<p>24. We did not hear or receive any evidence in favour of replacing VAT with a retail sales tax. Any contemplation of such a change must be accompanied by more evidence as to the effects it would have... (Paragraph 169)</p>	<p>We see no sign the Government is contemplating such a change.</p>
<p>25. ... We do not recommend any significant changes to the scope of VAT. (Paragraph 180)</p> <p>26. 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'. (Paragraph 181)</p>	<p>There have been no significant changes to the scope of VAT.</p> <p>The Government has not set out its principles and objectives for the VAT system, although some more targeted consultation has taken place such as in relation to the VAT exemption for land.</p>
<p>27. We recognise the challenge of net zero and agree with witnesses to our Decarbonisation and Green Finance inquiry that tax has a part to play in achieving this goal... (Paragraph 190)</p> <p>28. 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. (Paragraph 191)</p>	<p>The Government have not so far published a tax strategy to meet net zero.</p> <p>The Government's response to TAC stated that the role of tax and carbon pricing in meeting net zero, as well as managing the impacts and costs of the transition, would be considered as part of the Final Report of the Net Zero Review and future fiscal events. This report, published on 19 October, provides a high-level overview of the UK's approach to carbon pricing but this mostly describes the mechanisms in place now (UK Emissions Trading Scheme, Carbon Price Support, etc), offering only the vaguest indications of how these mechanisms might evolve in future (eg the Government 'is open to linking the UK ETS internationally in principle' and is committed 'to explore expanding the UK ETS to additional sectors'). This is a long way from the Climate Change Tax Policy Road Map we would like to see, to help businesses and other taxpayers to plan ahead with confidence.</p> <p>The Emissions Trading Scheme covers less than half of economic activity; there are issues around the extent to which activity generating emissions has been 'outsourced to other countries which then export to us, rather than eliminated altogether, and around the consistency of carbon pricing across the economy; and what if any role the Government sees for tax in filling these gaps. In the aviation sector at least there are</p>

	<p>international treaties restraining the use of tax. The Government's strategy should indicate as far as possible how it anticipates that these issues can be resolved.</p> <p>On the particular issue of the need to protect those on low incomes, we note the statement in the Net Zero Review final report that the Government do not favour using the tax and welfare system to manage 'adverse distributional impacts' of the net zero transition, preferring instead to target public spending at 'specific decarbonisation measures for low-income households'.</p>
<p>29. ... 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. (Paragraph 200)</p>	<p>The Government have made no suggestion they plan further reforms to SDLT.</p> <p>We note that the SDLT temporary nil rate band uplift came to an end on 30 June 2021.</p>
<p>30. We have heard strong arguments in favour of reform of council tax. We encourage the Government to consider how best to reform local taxation, taking account of recommendations from the Housing, Communities and Local Government Committee and we draw the Government's attention to evidence submitted to this inquiry. (Paragraph 208)</p>	<p>The Government have made no suggestion they plan to reform council tax.</p> <p>We note that average council tax in England continues to rise faster than inflation, as it has since 2015.</p>
<p>31. ... we believe that the business rates system needs reform. We welcome the current Government review and encourage it to make significant reforms to improve the overall functioning of the business rates system for the long term. (Paragraph 211)</p>	<p>The outcome of the business rates review is that the Government have decided to retain business rates in more or less their existing form. (See our comments in section 7 above)</p> <p>We note the promise of a consultation on an Online Sales Tax. While the revenue from this would be used to reduce business rates there is no suggestion that, if introduced, it would be accompanied by reform of business rates. (See our comments in section 7 above)</p>
<p>32. 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... (Paragraph 221)</p>	<p>The Government have not drawn up such a strategy and, in his responses to TAC, the then Financial Secretary stated that they have no intention of doing so, believing it could undermine revenue-raising 'by fettering the Treasury's ability to respond to economic and fiscal circumstances, and [that it] would risk forestalling'.</p> <p>While recognising the risks identified by the then minister in relation to pre-announcement of some particular tax changes, and the need to retain flexibility</p>

	<p>to respond to events, we do not see why these should be an obstacle to the publication of, and consultation on, a set of broad medium-term objectives and priorities for the tax system, as suggested by the committee, and by the CIOT/IfG/IFS 2017 <i>Better Budgets</i> report.</p>
<p>33. The tax policy making process instituted in 2010 (and reaffirmed in 2017) appears to be sensibly designed; but concerns have been expressed to the Committee that the Government does not always adhere to it and so risks losing the confidence of stakeholders. If the process cannot be followed, for example because there is not enough time to cover all the stages before a change needs to be implemented, the Government should be open about it and should set out its reasons for doing so. (Paragraph 230)</p>	<p>The process continues to work well where it is followed. The Government's decision to reconsult and revise its proposals on disclosure of uncertain tax treatment is a good example of a measure being improved through effective consultation; although having started at stage 2 of the consultation process the measure is only 'less worse' and will still not achieve its policy objectives effectively or proportionately. (See our comments in section 11 above)</p> <p>The health and social care levy is an example of what can happen when the process is not followed. This new tax was announced without prior consultation, outside a fiscal event, voted on by MPs the following day and completed its passage through the Commons within a week. There was no opportunity to explore whether the objectives of the tax could be achieved more effectively (eg with less additional cost and complexity) in a different way, or whether the scope of the tax could be improved. The Government has not provided an explanation of why the new levy needed to bypass the normal consultation processes and be fast-tracked into law so quickly.</p> <p>Another example of a reform where early stage consultation might have produced a better result is the reform of basis periods, the 'fundamental building blocks of the tax system'. This was launched in the summer at stage 2 of the consultation process with the intention of implementing the measure less than nine months later, and we have a number of concerns about the proposals. (See our comments in section 11 above)</p>
<p>34. ... It is right that the effectiveness of the OTS and its ability to carry out its functions are now reviewed, and we await with interest the outcome of the review. (Paragraph 241)</p>	<p>The outcome of the review has not yet been published. At the launch the minister stated it would be published 'in Autumn 2021'.</p> <p>However the Government has announced that it will legislate to increase the maximum independent representation on the OTS's board from 8 to 10 members and this is included in the new Finance Bill.</p>

<p>35. We support the plans announced by HMRC in July 2020 to digitise and improve tax administration. If tax reform is to be successful, it is important that HMRC has the capacity and funding to carry out reform and is not hindered by out of date systems. (Paragraph 247)</p>	<p>The spending review has given HMRC a settlement which amounts to a real-terms growth rate of 1.2% per year over this Parliament. That is better than nothing but given the significant pressures on HMRC and the changes – digitalisation, new taxes, new customs arrangements – it has to manage, it is probably less than it needs.</p> <p>HMRC’s services to taxpayers and their agents are already under severe strain. There was no reference to this in the Budget or spending review. Good customer service is essential to a smooth-running tax system and must not be neglected amid the (admirable) transformative ambitions set out in the spending review.</p>
<p>36. ... We do not believe that there is currently a need for [an overarching] tax commission. (Paragraph 252)</p>	<p>The Government show no inclination to launch such a commission.</p>

*November 2021*