Chartered Institute of Taxation – Supplementary Written evidence (DFF0019)

The Finance Bill was published on 4 November 2021 ie after we had provided written and oral evidence. Following an initial review of the Finance Bill, we would like to make further observations.

The government has 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.

There were numerous potential knock-on effects on an individual's total income arising from spreading the excess profits in the year of transition over 5 years, with potential impacts on the rate of income tax paid, loss of personal allowance, the High-Income Child Benefit Charge (HICBC), superannuation, pension contributions, repayment of student loans and so on. The Finance Bill now treats 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, but our initial review indicates that it will not eliminate this impact entirely.

We are pleased that the government has stated that it will explore carefully with stakeholders whether to introduce administrative or policy easements to minimise burdens caused by having to submit tax returns containing provisional figures, such engagement to take place before the transition year commences. This is welcome as our major concern with the reform is that it introduces repeated complexity and administrative burdens for affected businesses.

In this regard, we were surprised HMRC's impact assessment[1] recognises that, while there will be one-off costs for businesses including familiarisation with the rules, updating software, and deciding whether to change their accounting date to 31 March or 5 April, the estimated cost of this is stated to be negligible. We think this is unrealistic. We were also surprised to see that the continuing annual costs are estimated to be just £9.1m (before any easements), and ongoing savings are estimated to be £10.2m, meaning that the overall impact is a negative (ie saving of) £1.1m. Given the additional ongoing compliance and administrative burdens that we believe affected businesses will suffer, we find it hard to believe that these are outweighed by savings elsewhere.

We also note that, during the evidence provided by HMRC representatives on Thursday 28 October, it was stated that the tax / professional bodies had put 'very great pressure' on the government to reform basis periods.[2] Whilst we cannot speak for others, we suggested[3] that the government undertakes a stage

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[1] https://www.gov.uk/government/publications/basis-period-reform/basis-period-reform#policy-objective – section 'Summary of Impacts'.

[2] Q61

one consultation in relation to the basis period for the taxation of property income generated by individuals who will be within the scope of Making Tax Digital (MTD), because of the potential mismatch in reporting obligations between property and trading income. We did not call for the reform currently being implemented.

15 November 2021

[3] h ttps://ciotmktgprodeun.azureedge.net/ciot-budget-representation-on-taxation-of-property-income