

GOODBYE 2009, HELLO 2010

Chris Sanger takes a forward look at tax policy

The end of a year is a traditional time to reflect on the past and to determine the actions for the future. For tax practitioners this year, this is particularly worthwhile as 2010 promises to be an interesting year, with the election, the potential for a hung parliament, and the state of the public finances. Tax is likely to be the subject of much debate and 2010 offers the prospect of more rapid change in tax policy than at any time in the last decade.

Reflecting on 2009

So, reflecting on 2009, what should we remember when considering 2010?

Unfinished business

There are still some policies of 2009 that need to be finalised. The detail of the Pre-Budget Report's (PBR's) new windfall tax on bank bonuses over £25,000, the 'Bank Payroll Tax', remains fluid as the draft legislation is dissected and more 'unintended' taxpayers are identified. We have already seen some changes and we may yet see more, as HMRC seeks to adapt the new tax to the complex environment of financial services while still maintaining the overall aim of the tax – namely to deter (or penalise) large bonuses until the new regulatory regime of the Financial Services Bill can come into operation.

The Government needs to be careful not to allow the tax to 'creep' beyond its policy boundaries, as a belief that windfall taxes might become a regular occurrence could undermine the credibility of the UK's claim to have a stable tax system.

The PBR as the election platform?

The shape of tax policy by the end of 2010 will also depend on the date of the election and whether the current government chooses to deliver a further Budget. It has long been the accepted wisdom that the election would be in May, allowing for a Budget in March, a short Finance Bill before the election and a longer one afterwards.

However, the PBR seems to have been crafted with some care to provide a suitable backdrop to an election campaign. Other than the Bank Payroll Tax and the



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future increase in National Insurance contributions, there was little in the PBR to signal how government debt will be repaid. A subsequent Budget might necessitate some uncomfortable detail about future tax rises or spending cuts, which could be avoided by an earlier election.

From a tax policy perspective, an election in (say) March would avoid a further Budget and two finance bills but increase the uncertainty over the implementation of some of the measures from the PBR.

Messages from policy publications in 2009

The challenges of 2010 stem from the environment it has inherited and the activities in 2009 have provided a strong base for policy debate among all of the political parties. With the prospect of a hung parliament, where tax policies might be traded for other commitments, such open discussion will be important to ensure that all parties understand the realities of the current environment.

With this in mind, the Institute launched its manifesto, *Going for growth: a manifesto for good government and sustainable economic recovery*, at the political party conferences in autumn 2009. This specifically covers tax policy and recommends that policy-makers should:

- Allow for debate on tax policy proposals before decisions are made.
- Introduce a clear timetable for the finance bill in line with the needs of taxpayers.
- Bring clarity to assumptions in the 'red book'.
- Establish an independent commission to reduce complexity in the existing tax code.

This publication was supplemented by the Faculty's PBR representations (TAXREP 57/09, made available to all political parties) that focused on the long-term needs for the tax system and how to build confidence in the UK tax system.

The points and perspectives in these publications remain valid for 2010 and we need to reinforce these messages as the debate develops.

Messages from policy debate in 2009

These ICAEW publications were supported by the Wyman Debate which, building on the belief that the Government will need to focus on repaying the government debt, asked: 'If taxes must rise, which goose should be plucked first?' That debate produced a strong conclusion towards reform of the VAT system, suggesting the replacement of some of the zero-rated exceptions that have been with us ever since the adoption of VAT with targeted (and therefore cheaper) grants. We recognise this is politically difficult, but it nevertheless deserves to be part of the policy debate.

Incidentally, increasing taxes on individuals (and hence on employment) was favoured by very few at the debate ... although, with the increase in NICs from 2011, this option appears to be favoured by the current government.

Actions for 2010

So we have some strong foundations from 2009 upon which to build in 2010. Given this background, the plans for 2010 include:

Re-asserting the Ten Tenets

The Faculty's 'Ten Tenets for a Better Tax System' were published a decade ago and have provided a strong foundation for the basis of our representations to government ever since. The Ten Tenets were intended to be factors that underpin the tax system and against which tax legislation (existing and future) can be judged. With the changes that we are expecting to have experienced by the end of 2010, there is clearly a

strong need for these Tenets to again be 'front of mind'.

Given this, the Faculty will be relaunching the Ten Tenets, exploring how they have been met, or not, over the last decade and drawing on the experiences of members of the Faculty. This should provide a vital checklist for any tax policy proposal to ensure that decisions are made in full understanding of the ramifications.

Maintaining active policy engagement

The Faculty has strong engagement with the Government, HM Treasury, HMRC and the opposition parties and will be maintaining this in the run-up to the election and throughout 2010. We are blessed with very able staff and a lot of dedicated members who give up their time to represent the Faculty and the Institute, providing their views on issues of importance. On behalf of all the members of the Faculty and the Institute, I'd like to use this opportunity to thank them for all their hard work. We will need all that enthusiasm for 2010!

Expanding the group of active volunteers

I would also like to ask all members of the Tax Faculty to think about the world of 2009 and how it could be improved in 2010. We all have to live in the tax policy environment that is created and we all experience it in our own unique way. A key role of the Faculty is to present the views and perceptions of the Faculty membership as a whole, and I really value direct feedback on issues of concern. Only by hearing from you can we make sure that we understand whether issues are isolated or common throughout the membership.

Our new website – on the ICAEW Online Network (ION) – provides us with greater facilities for gathering feedback. We plan to use this more in the future to gather your views on particular items, but I would encourage you all to use the ION facility or contact us on taxfac@icaew.com to give us your views and perspectives.

Conclusion

So 2010 is likely to be a busy year for us all, with lots of changes to consider. But change brings opportunity – so I'd like to close by wishing you all a prosperous New Year.

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