ICAEW REPRESENTATION 63/16

TAX REPRESENTATION

SHIFTING SANDS: UK TAX POLICY AND THE TAX BASE

ICAEW welcomes the opportunity to comment on the Shifting Sands Inquiry "UK tax policy and tax base" launched by the Treasury Select Committee on 27 January 2016.

This response of 31 March 2016 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

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ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 146,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

For more information, please contact ICAEW Tax Faculty: taxfac@icaew.com

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Introduction

1. ICAEW Tax Faculty welcomes the opportunity to provide a written submission outlining some key considerations in the context of the issues raised by the Treasury Select Committee (TSC).

2. We would be very happy to participate in any oral evidence sessions when we would be able to expand on some of the more general, overarching, comments that we have made in the current written submission.

The making of tax policy

3. We have over the past five years examined "the making of tax policy" by reference to "outcomes" and evaluated those outcomes in the context of the TSC "Principles of Tax Policy" published in March 2011 which set out six principles:

1) Tax policy should be fair;
2) Tax policy should support growth and encourage competition;
3) Tax Policy should provide certainty without regular recourse to the courts - which in turn requires legal clarity, simplicity and targeting (so that taxpayers are clear whether or not they are liable for particular types of charges to tax);
4) Tax Policy should provide stability, with minimal change unless there is a justifiable economic or social basis;
5) Tax policy should be practicable, meaning that a person's tax liability should be easy to calculate and straightforward and cheap to collect; and
6) Tax Policy should be coherent, with new provisions complementing the existing system rather than conflicting with it.

4. ICAEW has applied these principles to assess Budgets and other fiscal events using a traffic light method of assessment: green = pass, amber = neutral and red= fail. In the very latest assessment, in respect of 16 policy measures in Budget 2016, we rated seven green, eight amber and one red. The latest submission, which has just been sent to the TSC, is reproduced in Appendix Three.

5. Comparing submissions we have made to the TSC in the last Parliament with the two fiscal events we have evaluated in this Parliament there are significantly more policy changes which we have evaluated as amber in the present Parliament but there continue to be more than twice as many green changes as there are red.

Fiscal Event	Green	Amber	Red
Budget 2016	7	8	1
Autumn Statement 2015	1	5	2
Budget 2014	6	3	1
Budget 2013	4	3	3
Budget 2012	5	5	2

6. We have also participated as a member of the Tax Professionals' Forum which published its fourth annual independent report in Deceber 2015 covering the final 15 month period of the Coalition Government up to 30 March 2015. The report set out six lessons from the policy making experience of that period and five updates covering the lessons that were identified in predecessor reports.

7. Finally HM Treasury published the Business tax road map on 16 March 2016, Budget Day, setting out anticipated business tax changes and areas of consultation over the coming four years together with sections on "simplifying and modernising the tax regime" and "tax administration and customer service". The former notes the expansion of the Office of Tax Simplification which will continue to provide independent advice on how to deliver a simpler tax system. We believe that the OTS will be better placed to carry out these duties if it is free to set its own agenda rather than only working on projects sanctioned by the government – and HM Treasury needs to be under an obligation to at least consider all OTS recommendations and report publicly on what it intends to do in relation to those recommendations.

The problem of the shrinking tax base

8. As its name implies the BEPS Action Plan of OECD, Base Erosion Profit Shifting, was specifically designed to investigate, by reference to existing tax rules and how international business currently operates, the extent to which business structures and models undermine national tax systems ie reduce the tax base and shift profits, and what corrective action would be appropriate to address the identified problems.

9. The overarching aim of the BEPS Action Plan has been to identify ways in which the existing domestic and international tax regimes and arrangements can be recalibrated to ensure that the profits of international businesses are taxed where economic activity takes place and where value is created.

10. The final reports arising from the work of OECD were published in October 2015 and endorsed by the G20 countries at their summit the following month. The number of countries that were involved in the Action Plan rose to 62 by the time the reports were finalised. At the outset only OECD countries and G20 countries which are not members of OECD were involved, a total of 44 countries in the first year, 2014. OECD now hopes that from 2016 onwards further countries will become involved in the finalisation of some of the issues that have not yet been fully addressed and in the implementation of the minimum standards, recommendations and best practices identified in the published work. OECD published an Implementation Framework in February this year and has invited additional countries to become involved on an equal footing with the existing participating countries.

11. It is too early to form a judgement as to how successful the OECD BEPS Action Plan will be in addressing base erosion and profit shifting problems but we believe that it could make a significant difference.

12. It is also worth pointing out that the UK government has expanded the number and impact of other taxes that it uses to ensure that business makes an appropriate contribution to the public finances and has, at the same time, very considerably reduced the headline rate of corporation tax: the latter was 28% when the Coalition Government came to power in 2010 and will be 17% when the current Government reaches the end of its term in 2020. As a result there is now, in the UK, a considerably reduced dependence on taxes on profits. PwC, the professional services firm, has worked with the 100 Group of companies each year over the past 10 years and their detailed analysis of the taxes that the very largest UK companies pay in the UK demonstrates a considerable change over that period. Ten years ago corporation tax, tax on profits, was the major tax representing 50% of all the taxes that these businesses paid but that has now declined to less than 20% and corporation tax is now only the third largest tax after employers' national insurance contributions and business rates. We are not aware of any detailed analysis as to whether large companies are making the same overall contribution to the public finances now, compared with ten years ago, but our own, relatively rough, calculations suggest that the overall contribution is commensurate with what it was ten years ago but the mix of taxes paid has altered markedly.

Radical solutions to the problems of the shrinking tax base

13. A major concern in relation to the current international system of taxation is that it reflects the territorial nature of, mainly, manufacturing business that was appropriate some years ago but no longer accurately reflects today's world and the manner in which business is conducted. Business is now global, increasingly digital and no longer operates by reference to the country boundaries which remains the framework by which tax is still largely assessed and collected. This has put a strain on the existing tax rules which the OECD BEPS Action Plan is designed to alleviate.

14. A number of commentators have suggested that tax ought to be collected by reference to the aggregate profits of the global business, those profits shown in their consolidated accounts, and that the profit should then be “attributed” to the countries in which the particular business operates by reference to appropriate factors, which it is suggested should be a combination of turnover, assets and payroll. This is the approach which underpins the current European Commission proposals for a Common Consolidated Corporate Tax Base (CCCTB).

15. Other radical solutions have been put forward, for instance by the 2020 Tax Commission, to which reference is made in the TSC terms of reference. The Institute for Fiscal Studies (IFS) presented its own holistic approach to taxation in the Mirrlees Review in 2010. We do not comment in the current paper on the merits, or otherwise, of these other radical approaches but clearly the TSC needs to take evidence from these bodies as part of its own evaluation of the appropriate way to ensure that the UK tax system is as good as it should be and requires business to contribute an appropriate amount to the public finances.

16. The TSC terms of reference also puts forward a suggestion that there might be a corporate tax on turnover. A specific tax on turnover would not be permissible within the EU as VAT is that tax. We also think there is more merit in pursuing the OECD approach to seek to tax profit where economic activity takes place and value is created.

17. The TSC Inquiry also queries whether there should be a wholesale review of capital taxation. We believe there is merit in considering such a review not least because government policies have led to significant wealth accumulation in the hands of some individuals represented, for most such taxpayers, by property and/or pension funds. There was considerable speculation in the period prior to the latest Budget of a significant change to the taxation of pensions but the anticipated changes were not introduced. It would be helpful to have a more considered debate on the issues rather than as part of pre-Budget speculation.

Other mitigations of the problem of the shrinking tax base (addressing tax avoidance and non-compliance)

The success or otherwise of avoidance measures outlined in the terms of reference

18. The Disclosure of Tax Avoidance Schemes (DOTAS) regime, introduced in 2004, has seen a very significant diminution in notified schemes in recent years. It is too early to gauge the success of the General Anti-Abuse Rule (GAAR) which was only introduced in July 2013 and for which notification would have first been required by January 2015 in respect of the 2013/4 tax year. The amount of money collected under the new accelerated payments scheme indicates that it is, as the government said it would, changing the economics of tax avoidance schemes.

Challenge to professional bodies to regulate their members activities

19. ICAEW, in conjunction with other professional bodies, last published its Professional Conduct in relation to taxation (PCRT) on 1 May 2015. Over the past twelve months ICAEW and the other professional bodies have been redrafting the PCRT to set down standards of behaviour in relation to advising on tax planning to which it expects its members to adhere, rather than merely providing guidance which was not designed to create a framework of enforceable standards.

20. However, if the government’s policy aim is to prevent inappropriate behaviours amongst all tax advisers, then the policy needs to apply to all those advising in tax. It is essential that all other advisers, including lawyers and the unaffiliated advisers are subject to equivalent requirements. If that is not the case then taxpayers who want to engage in what the government would consider to be unacceptable tax avoidance behaviour will use the unregulated, or inappropriately regulated, part of the tax adviser market place to act for them and provide technical support and guidance.

How to improve or maintain the culture of compliance

21. As noted above professional bodies such as ICAEW need to have clear and robust rules to reflect appropriate behaviours and where necessary to be available to discipline any members who breach such rules.

22. Other bodies need to have equivalent rules and there needs to be some appropriate mechanism to supervise other tax advisers including those who are not affiliated to any professional body.

23. There needs to be better public confidence in the tax system and in the ability of HMRC to efficiently and effectively administer the tax system so that there is confidence that all taxpayers are paying the amount of tax that is appropriate to their facts and circumstances.

The administration of tax

24. The questions posed in this section of the terms of reference are:

- Has the merger of the Inland Revenue and Customs and Excise been a success, and have there been too many subsequent reorganisations within HMRC?
- Are the Treasury's and HMRC's plans for "Making Tax Digital" (as set out in the "roadmap" published on 14 December 2015) adequately designed and acceptable?

The merger of Inland Revenue and Customs and Excise

25. On the measures of raising revenue and cutting costs the merger has probably worked, but this is counterbalanced by a failure to provide a consistently acceptable level of service to taxpayers. This is hardly surprising, as the new organisation has been in an almost continual state of flux since the merger nearly eleven years ago and in that time the headcount of the combined organisation has almost halved with a further reorganisation and cuts in staff over the next spending period.

26. Poor service standards undermine the public's trust in the tax system, and in HMRC, and, if left unchecked, run the risk of causing severe damage to the goodwill which HMRC and HMT enjoy from a largely compliant public in the UK.

27. There are also, currently, extremely challenging plans to digitalise the tax system over the next four years or so which will put continuing pressure on HMRC. Of HMRC's three strategic objectives, to maximise revenues, make sustainable cost savings and improve the service that it provides for its customers, the last objective has been a poor third for most of the period of the merger. This inability to make the system work for its customers has exacerbated the concern that HMRC may be failing in other areas and may not be collecting as much tax from some taxpayers as it should.

Making tax digital

28. This was announced first as Making tax easier, at the time of Budget 2015, but it is only in recent months that the full implications of the changes businesses will be required to make have begun to emerge. There are in fact a number of separate strands to this project which, to date, have been very poorly communicated by HMRC. It would appear that the lack of communication has in part been due to uncertainty about how to tackle what is clearly a fundamental change to record keeping, filing and payment of tax rules in the UK. We have already responded to the first discussion paper on simpler payments, published in December 2015, and in respect of which we submitted our comments in March 2016.

29. During the course of 2016 we are expecting a number of consultations on proposals for Making tax digital (MTD), but it already seems that the overall effects of MTD will require extensive changes to the tax system. Changing payment dates will undoubtedly mean bringing tax payments forward. It is imperative that this is not rushed, nor made mandatory, as for many businesses this could cause cash flow difficulties. It may seem sensible for some businesses to change their accounting periods; we understand that it will be possible to align reporting periods for quarterly returns with those for VAT quarterly returns. Any or all of this will mean change for business which comes at a cost.

30. The tax policy decision to make the move to digital does indeed support growth and competition. Making it compulsory is not fair. The process of change will carry a cost for business and will destabilise many who do not need to do so for any other reason than because it will be the law.

31. We are very much in favour of using IT and digital technology to make the tax system simpler and more straightforward for individuals and businesses and more efficient and effective for HMRC. But we have concerns about some of the current proposals and we have seen no robust analysis from the Government for the potential savings to business. Paragraph 1.289 of the Autumn Statement 2015 stated that MTD, together with the associated quarterly reporting proposals, can reduce the costs to business of tax administration by £400m by the end of 2019/20. We have yet to see any support for this claim which we believe is not justified.

32. We also have very considerable concerns that mandating every business to keep its records digitally is wrong in principle and that this should be a business led decision.

33. In a recent survey sponsored by ICAEW Tax Faculty involving a nationally representative survey of 500 businesses it was found that only 25% of businesses currently keep their records digitally, see http://www.ion.icaew.com/TaxFaculty/post/UK-business-survey-into-quarterly-digital-tax-reporting. This demonstrates the considerable administrative burden, together with associated administrative costs, that will be incurred by digitalisation. If as the Government appears to think there is a problem with business record-keeping, a position with which we disagree, we do not see that forcing businesses to keep digital records is the solution to that problem.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.

2. Certain: 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.

3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.

4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.

5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.

6. Constant: Changes to the underlying rules should be kept to a minimum. 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.

7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.

8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.

9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.

10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see via http://www.icaew.com/en/about-icaew/what-we-do/technical-releases/tax).

APPENDIX 2

Call for written submissions – 27 January 2016

The Treasury Committee invites written submissions addressing the following points:

The making of tax policy

- To what extent, if at all, has the Treasury complied with the principles of tax policy, set out in the annex?
- Have the entities involved in tax policy (HM Treasury, HMRC and the Office for Tax Simplification) performed adequately?
- Does the Treasury have the expertise to design tax policy? Does it make effective use of HMRC advice?
- What simplification measures, whether or not considered already by the OTS, now need examination?

The problem of the shrinking tax base

- To what extent is the UK's corporate tax base being eroded as business is increasingly conducted globally?
- Are there particular sectors that are more mobile and do those sectors make a disproportionate contribution to overall tax yield?
- What other changes are occurring in the UK tax base, and how should the UK Government react to these changes?

Radical solutions to the problem of the shrinking tax base

- Given the inevitability of some sort of tax gap and of differences in interpretation of the "correct amount of tax", should the Government address the problem of the shrinking corporate tax base through more radical changes to the tax system?
- If so, what type of corporate tax structure could ensure that revenue is collected in accordance with the principles of tax policy and in a way which minimises the risk of base erosion? For example, should business taxation be based on turnover rather than profits?
- Should the Government consider other forms of taxation (such as the proposals of the 2020 Tax Commission) when considering how to raise tax in the future, particularly from businesses and wealthy individuals?
- Is there a case for a wholesale review of capital taxation?

Other mitigations of the problem of the shrinking tax base (addressing tax avoidance and non compliance)

- Have the recent initiatives (GAAR, the accelerated payments regime and notifications under the Disclosure of Tax Avoidance Schemes) been effective in tackling avoidance?
- To what extent will projects such as the OECD's Base Erosion and Profit Shifting (BEPS) project and common reporting standards help in tax collection?
- What further international cooperation is required?
- March 2015 Budget contained a challenge for the tax professional bodies to take a greater lead in setting and enforcing clear standards around the facilitation and promotion of avoidance. Is that likely to succeed in encouraging more responsible behaviour from tax advisers? Do tax advisers need to be regulated?
- What, if anything, should be done to maintain or improve a culture of compliance or a sense of tax morality among the full range of taxpayers?

The administration of tax

- Has the merger of the Inland Revenue and Customs and Excise been a success, and have there been too many subsequent reorganisations within HMRC?
- Are the Treasury's and HMRC's plans for "Making Tax Digital" (as set out in the "roadmap" published on 14 December 2015) adequately designed and acceptable?

APPENDIX 3

Budget 2016

TRAFFIC LIGHT ASSESSMENT

The Treasury committee has six principles for tax policy: that it should be **fair, support growth and competitiveness, certain** (i.e. legally clear, targeted and simple), **stable, practical,** and **coherent**. Pending review of the relevant detailed legislation, our initial assessment of how the Budget 2016's new tax policies match up to the principles is set out below.

Measure	Fair?	Supports growth?	Certain?	Stable?	Practical?	Coherent ?	OVERALL
Soft drinks industry levy The sugar tax	🔴	🔴	🟡	🟡	🟡	🔴	🟡
Reduction in corporation tax rates Reduced to 17% by 2020	🟡	🟢	🟢	🟡	🟢	🟢	🟢
Large company corporation tax payment date Start date for accelerated quarterly payments postponed	🟡	🟡	🔴	🔴	🟢	🔴	🟡
Company losses carried forward Amended loss relief provisions	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Capital gains tax rate Rate reduction to 10%/20% for non residential property	🟡	🟢	🟢	🟡	🟢	🔴	🟡
Entrepreneurs' relief for long term investors New lifetime allowance	🟢	🟢	🟢	🟡	🟢	🟢	🟢
Personal allowance Increase in allowance by £500 to £11,500	🟢	🟢	🟢	🟢	🟢	🟡	🟢
Apprenticeship levy top-up 10% top-up to be paid to employers for spending on apprenticeships	🟢	🟢	🟡	🟡	🟡	🟡	🟡
Lifetime ISA New ISA to encourage the under-40s to save for retirement or first home	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Help to save Savings scheme for adults on low incomes	🟢	🟢	🟢	🟢	🟢	🟢	🟢
Business tax roadmap Plans for changes to major business taxes to 2020	🟢	🟢	🟡	🟡	🟡	🟡	🟢

Property and trading income allowances New allowances covering small amounts of trading and property income	🟢	🟢	🟡	🟡	🟡	🟢	🟢
Trading income received in non-monetary form Trading receipts in non-monetary form are taxable	🟢	🟢	🟡	🟢	🟡	🟢	🟡
Self-employed class 2 NIC merged into class 4	🟡	🟡	🟢	🟢	🟢	🟡	🟡
Off payroll engagements in the public sector Personal service company rule change (IR35) for public sector engagements	🔴	🔴	🔴	🔴	🔴	🔴	🔴
SDLT - non-residential and mixed use property New rates and calculation for non-residential purchases	🟢	🟢	🟢	🟢	🟢	🟢	🟢

Key

🟢 Pass

🟡 Neutral

🔴 Fail

About ICAEW

ICAEW is a professional membership organisation, supporting 140,000 Chartered Accountants who advise over 1.5 million UK businesses. Under our Royal Charter, our world-leading Tax Faculty works closely with HMRC up to a year ahead of every Budget to help strengthen and inform new tax law, in the public interest.

As noted above, these are our initial assessments of the measures as announced in the Budget Day material and these may change once we have studied the actual detail of the proposed measures.

Detailed comments

Soft drinks industry levy

The proposed levy on the soft drinks industry seems unfair in that it targets only one type of beverage, excluding similarly high content sugar food and drinks products. It is likely to be regressive in nature and is contrary to earlier stated intentions of Government that it would not impose a Sugar Tax. More information will be needed, followed by extensive consultation with the soft drinks industry.

Reduction in corporation tax rates

The reduction in rates was surprising, but will be welcomed by business.

Large company corporation tax payment dates

- The largest single impact on Budget cash flow forecasts is the proposal to put back by two years the plan to accelerate corporate tax payments for companies that have taxable profits over £20m. It was announced in the Summer Budget 2015 that these companies would have to pay tax by instalments in the third, sixth, ninth and twelfth months of the year and the new dates would first affect tax receipts in the 2017/18 tax year. The start date has now been put back a further two years so the income will first be brought forward in the 2019/20 year.

- After two years there will be a normal one year's worth of payments in every fiscal year and the public finances will be unaffected.
- However, the impact of the change seems to have altered quite dramatically. The amounts of the additional payments in the two years affected, originally 2017/18 and 2018/19, and now 2019/20 and 2020/21 are shown below:

	Summer Budget 2015	Budget 2016
Year one	£4.5bn	£6bn
Year two	£3.1bn	£3.6bn

- In the latest Table 2.1 the reduction in the earlier two years is shown as £6bn and £3.85bn so clearly the government thinks that the policy is going to have a significantly greater impact on the public finances than it imagined nine months ago: £9.6bn compared with £7.6bn.

Company losses carried forward

- The restriction in the relief for brought forward losses, which currently only applies to banks, is to be extended to businesses if they have profits in excess of £5m. If they do, then they will only be able to use the brought forward losses in respect of 50% of the profit over that £5m threshold. It is not absolutely clear how the new rules will work, but if a company has £10m losses and a profit in the subsequent year of £8m, we imagine that there will be full loss relief up to the £5m profit and then only 50% relief for the excess £3m i.e. £6.5m of loss relief compared with £8m currently.
- The Business tax road map states that the existing law "can lead to a situation where a large company pays no tax in a year when it makes substantial profits." However, that merely reflects the longstanding position under UK tax law that has given full relief for actual losses incurred, so the fact that a large profit might be covered by brought forward losses, should not be regarded as inherently something that should not be allowed.
- In our example, the company has made £8m of profit and it would now have to pay tax on profits of £1.5m. But over the two years, it has made an overall loss of £2m. It does not seem fair or reasonable to have to pay tax on profits which are covered by brought forward losses. It is difficult to see that the measure will help growth, as the ability to offset losses helps the cashflow of struggling companies.
- There is also a proposal that losses incurred on or after 1 April 2017, when carried forward, will be available for use against profits from other profit streams or profits of other companies in the group. This will be welcome.

Capital gains tax rate

- From 6 April 2016, the 18% rate of capital gains tax (CGT) will be reduced to 10% and the 28% rate to 20%, for chargeable gains except in relation to those chargeable gains arising on the disposal of residential property (that do not qualify for private residence relief) and carried interest.
- The Treasury claims the reduction in CGT will 'ensure that companies have the opportunity to access the capital they need to grow and create jobs', and to make sure the next generation enjoys a 'strong investment culture'. We do not follow this logic and it remains unclear what has prompted this change.
- The reduction in CGT rates increases the differences between the income tax and CGT rates and is likely to result in taxpayers looking to convert income into capital to take advantage of lower rates.

Entrepreneurs' relief for long term investors

- Entrepreneurs' relief (ER) will be extended to external investors in unlisted trading companies.
- There will be a separate lifetime allowance of £10m.
- The new rules will apply to newly issued shares purchased on or after 17 March 2016 providing they are held continually for a minimum of 3 years from 6 April 2016.

- This will be viewed by many investors as a simpler relief to access than the more complex Enterprise Investment Scheme.

Personal allowance

- This will remove many people from income tax and will be welcomed particularly by pensioners.
- It further increases the gap between the threshold for paying National Insurance and income tax.

Apprenticeship levy top-up

- We are concerned that the complexity of the Apprenticeship Levy has not been fully addressed. The top-up payment will therefore suffer from the same drawbacks for businesses affected.

Lifetime ISA

- Tax relief for saving will always be welcome.
- However, introducing yet another form of ISA which has the dual purpose of encouraging saving for retirement while also saving to buy a home adds to an already complex range of investment opportunities for the public.

Help to save

- It is difficult to see how take-up of this could be widespread.
- It seems unlikely that this will be accessible by new savers.

Business tax roadmap

- It was announced last year that the government would draw up a Business Tax road map to follow on from the successful Corporate Tax road map introduced in the last Parliament.
- The new road map sets out the proposals for the period to 2020 and beyond, together with a Timetable which shows the various reforms and the years in which they are to be introduced. Further details will be needed before it is possible to assess fully the likely impact of the proposals.
- The proposals for business rates will be welcomed by smaller businesses. Permanently doubling small business rates relief is particularly welcome, as are the increased taper thresholds.

Property and trading income allowances

- Micro entrepreneurs will benefit from the new £1,000 allowances for small amounts of trading or property income. Where income is below these levels, there will be no requirement for the business to register with HMRC. Where income exceeds £1,000, the allowances can be deducted instead of claiming expenses.
- While this reduces administration and is relatively simple, it is not necessarily fair as low margin businesses will not benefit in the same way as the example of somebody renting parking space on their driveway with minimal costs. Also, it should not be forgotten that many start-ups are loss making and this relief might prevent many from registering and claiming the loss relief that they are entitled to.

Trading income received in non-monetary form

- None of the documentation published with the Budget explains the background to this measure, effective for transactions occurring on or after 16 March 2016.
- The policy paper claims this a clarification rather than a change. The proposed new legislation is based on existing case law established in the House of Lords decision in *Gold Coast Selection Trust Ltd v Humphrey* [1948] 30 TC 209, and is revenue neutral.
- This is possibly linked to the government's review of the sharing economy and ambitions for a future link of any income generated within it, to productivity.

Self-employed class 2 NIC merged into class 4

- From April 2018, Class 2 NIC will be abolished and Class 4 NIC will be reformed, so that self-employed individuals can continue to build entitlement to the state pension and other contributory benefits. This will simplify the system.
- The government intends to set out its plans for the contributory benefit tests in its response to the recent consultation on this reform. The remaining problems and inequalities, for example those affecting those on low incomes, need to be resolved before the merger comes into effect in 2018.

Off payroll engagements in the public sector

- From April 2017, individuals working through their own limited personal services company (PSC) in the public sector will no longer be responsible for deciding whether the intermediaries legislation (known as IR35) applies to their PSC and paying the relevant tax and NIC.
- New rules will instead require the public sector engager, agency or other third party in the supply chain closest to the worker's PSC to make this status decision.
- If the nature of the engagement is more akin to that of an employee/employer, they will have to account for and pay the relevant tax and NIC liabilities through the PAYE real time information system.
- The government recognises that the current rules are seen as complex and can create uncertainty so it will consult on a simpler set of tests and online tools that will provide a clear answer as to whether and when the new rules should apply.
- We are already identifying practical problems with this new approach, such as where it may cause uncertainty or unfairness, and will be considering this in more detail in the coming weeks.

SDLT - non-residential and mixed use property

- The rates of SDLT for non-residential and mixed-use property, together with how the tax is calculated, will change for transactions on or after 17 March 2016.
- The former 'slab system' is replaced by a 'slice system' so that the previous cliff edges will no longer produce unfair results.
- This is a revenue raising measure, set to raise over £500m annually from 2017/18, although for those at the lower end, it should provide savings.