Foreword

This has been an interesting year for those working in tax. As this book goes to print, Royal Assent has only just been given to the second Finance Bill of the year giving us the Finance (No 2) Act 2015; but we are only weeks away from the release of the draft clauses for the Finance Bill 2016, and the first Finance Act of the year seems a distant memory, having gained Royal Assent before Parliament dissolved for the general election.

The announcements and changes have come thick and fast this year, with surprises in store for almost everyone in the July 2015 Budget – and most of those surprises were not particularly pleasant!

This foreword gives me the opportunity to review the broad sweep of the main changes and look at tax developments in a structural context.

Corporate tax

The announcement that corporation tax paid by most companies will reduce over the life of this Government was perhaps the single pleasant surprise in the July Budget announcements. I am not convinced that our EU partners will be as pleased by this development, which will set the main rate of corporation tax at 18% by 2020.

Increases in the rates of research and development (R&D) tax relief for SME and other claimants are of course welcome, but the announcement of what is effectively a 'clearance' process for new claims by SMEs represents an important development; it is widely accepted that R&D is underclaimed by smaller businesses, and this novel idea should help smaller businesses (and indeed their advisers) overcome the initial uncertainty about whether a particular project qualifies for relief.

Certainty is one aspect of tax announcements that seems to be undervalued by successive chancellors, so the announcement that the new annual investment allowance limit will remain at £200,000 for the life of this Parliament is very welcome – companies and advisers will be able to put away their 'Guide to transitional rules' and concentrate on growing businesses.

For businesses, perhaps the most difficult aspect to deal with is the commitment to achieving a national living wage of £9 per hour by 2020. This will require a major review of labour costs, as it is not only the lowest paid who will be paid more in five years' time; the need to preserve wage differentials may mean a substantial increase in employment costs for many businesses, and many are concerned about the impact of this.

Personal tax

Looking at the broad landscape of personal tax, I am struck by a discovery that surprises me. In 2014, when we were considering ICAEW's thinking about manifesto promises on tax, many were keen on the idea of a 'personal tax roadmap'. We proposed a document which would set out a broad direction of travel and a theme for developments in personal taxation over the coming five years. We were very quickly put right on that score, with not one political party accepting the proposition, and most telling us that the numbers associated with income tax were far too large for any government to 'box itself in' to that extent. This was used to illustrate why a corporate tax roadmap is a sensible idea, but a personal tax roadmap is just not possible.

Or was it? If we look at the proposals, promises and actual legislation we have in 2015, what do we have?

- Fixed upper boundaries for the three rates of income tax.
- An ambition for a personal allowance of £12,500 by 2020.
- An ambition for a higher rate entry point of £50,000 by 2020.

These, together with other changes made and proposed probably constitute a much clearer roadmap for personal tax than any of us might have hoped for when we mooted the suggestion. It's a roadmap Jim, but not as we might have called it!

There is also some evidence that policy is now considering the administration of the tax system in some of the changes made. Exempting some savings income from tax for most taxpayers will lighten the load on HMRC considerably. It will effectively abolish R40s at a stroke, and remove the niggling detail of collecting small amounts of higher rate liability from higher rate taxpayers within PAYE. Additional rate taxpayers are all comfortably within self-assessment, so the absence of an exemption for them does not increase administrative cost in the tax system. If HMRC is to continue to have its resources and headcount reduced, then policy options must consider at the design stage how changes can be delivered that reduce the admin burdens on HMRC.

Unpopular measures announced this year include the new structure of tax on dividend income and the change to tax relief for interest suffered in relation to residential property letting. We have included chapters on both of these changes in the book this year, as, although the changes both commence in future tax years, now is when the advice and planning issues need to be considered. The impact on property letting activities is difficult to predict precisely, but there is no doubt that landlords will need to consider the changes in detail before they decide what is their best course of action.

Pensions

The Chancellor also invited us to think long and hard about the future of tax relief on pension contributions. This is an expensive tax relief, and the largest costs are the obvious ones to look at when you are looking to make savings. Many large pension providers surveyed their customers this year, in what was a genuine open consultation; it is clear that the Government has no firm ideas about what might be done. However, as the autumn statement date approaches, it looks increasingly likely that this may be put on the 'too difficult' pile; the challenges posed by those with generous employer contributions which would otherwise have to be taxed as income is possibly a political challenge too far.

International

The focus for many advisers in this area is the challenges presented by global trade. While the UK has had a central role in preparing the base erosion profit shifting (BEPS) recommendations on behalf of the OECD, the UK Government has, in contrast, pressed ahead with unilateral action in the shape of diverted profits tax. Only time will tell whether this will prove to be a temporary measure, until the Government of the day has had a chance to reflect on and implement the OECD recommendations. But surely the better approach is a multilateral one based on international co-operation at the OECD level?

Avoidance, evasion and aggressive tax planning

After years of the words avoidance and evasion being conflated, we have a third culprit, 'aggressive tax planning' which now aims to join the party. On several occasions this year all three terms have been used together, and although Government, and in particular the ministers responsible for tax, clearly understand the difference between the terms, there remains a determination that the three will be considered together.

In some ways this makes perfect sense when speaking with tax professionals; the inclusion of aggressive tax planning indicates that the focus is on ways in which the tax system might produce less revenue than ministers expect. So as a way of focusing on the issue of reduced revenue it is logical to think of the three together. But there is also a risk in using terminology like this; in fact more than one risk. There is a risk that those who are not tax professionals will conflate the three terms together as 'bad', and equally bad at that. The second risk is one that chimes with tax professionals; that one man's meat is another man's poison. While evasion is very easy to define, and avoidance might have some broadly agreed underlying principles, what on earth is 'aggressive tax planning'? And what is it that Government, ministers or HMRC seek to do about it?

If, in fact the premise is that Government will legislate when it finds that a particular approach to tax planning is 'too effective', then that is its prerogative. The identification of 'imbalances' (the Chancellor's word) in the tax system and changing the law is properly a policy matter for government rather than the tax profession. But this boundary between acceptable tax planning and unacceptable tax avoidance needs a more open debate between HMRC, the profession and ministers themselves. At least that way we might find out where we agree (and where we disagree).