Business tax changes

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Economic and Social Research Council

Business rates & grants in England

- Business rates relief for retail, hospitality, leisure & nurseries extended
  - Further 3 months' holiday + (capped) 66% relief for rest of year
  - Costs £7bn

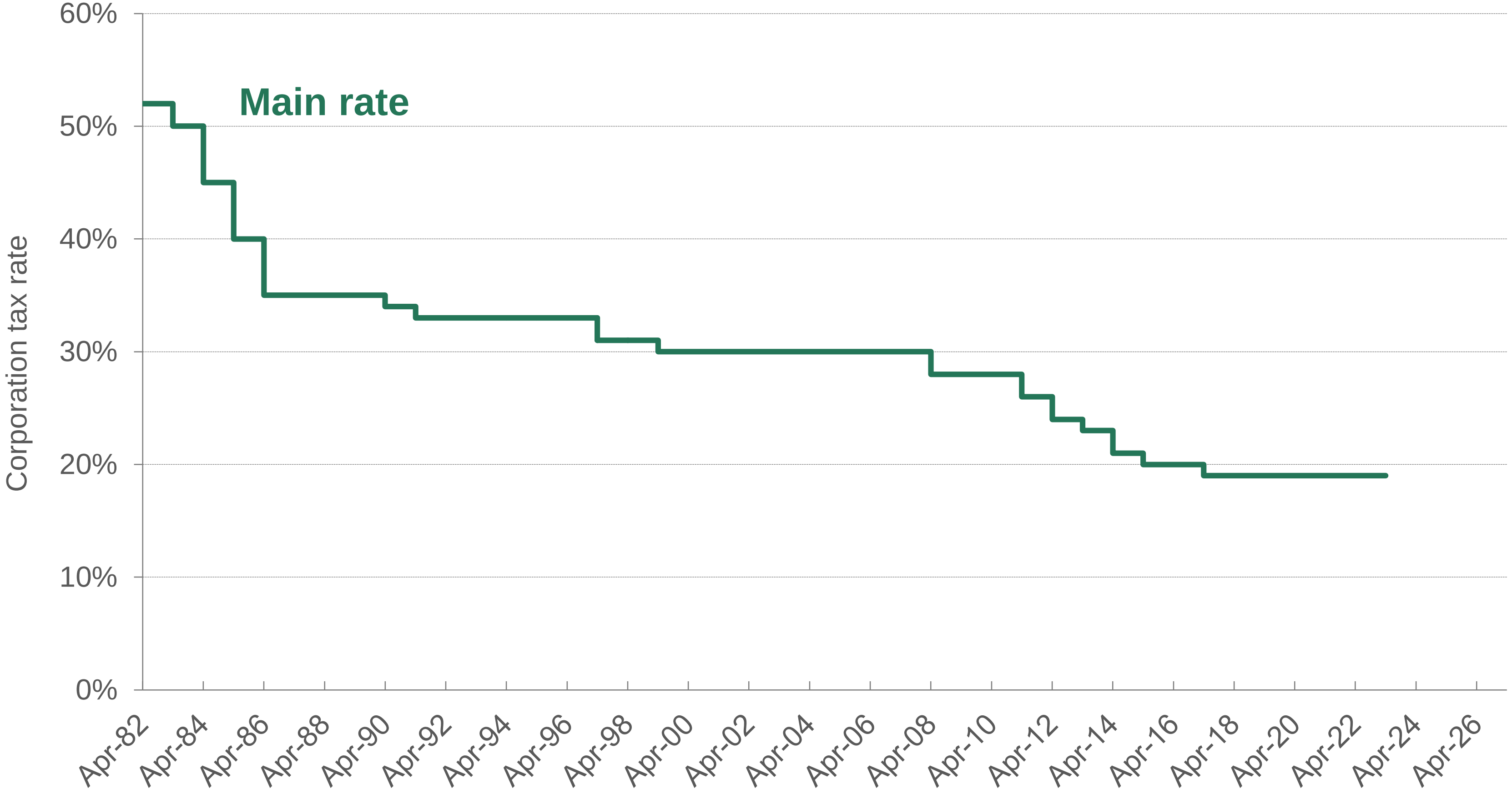
- New round of one-off grants, replacing current grants
  - £2,667–£6,000 for 400k non-essential retail businesses
  - £8,000–£18,000 for 230k hospitality, leisure, etc. businesses
  - Costs £5bn

- Extensions along these lines look broadly sensible

Freeports

- 8 areas around ports/airports, chosen to be 'regional hubs for trade, innovation and commerce', will get:
  - Simplified customs procedures
  - Concentrated government support
  - Temporary tax breaks (mostly until September 2026)
    - Business rate & stamp duty exemptions, employer NICs relief, enhanced investment allowances
- Cost unspecified: details 'came too late to be incorporated into [OBR's] forecast'
- Should create extra activity in those areas
- But much of it likely to be displaced from other areas
  - Is that desirable?

A change in direction



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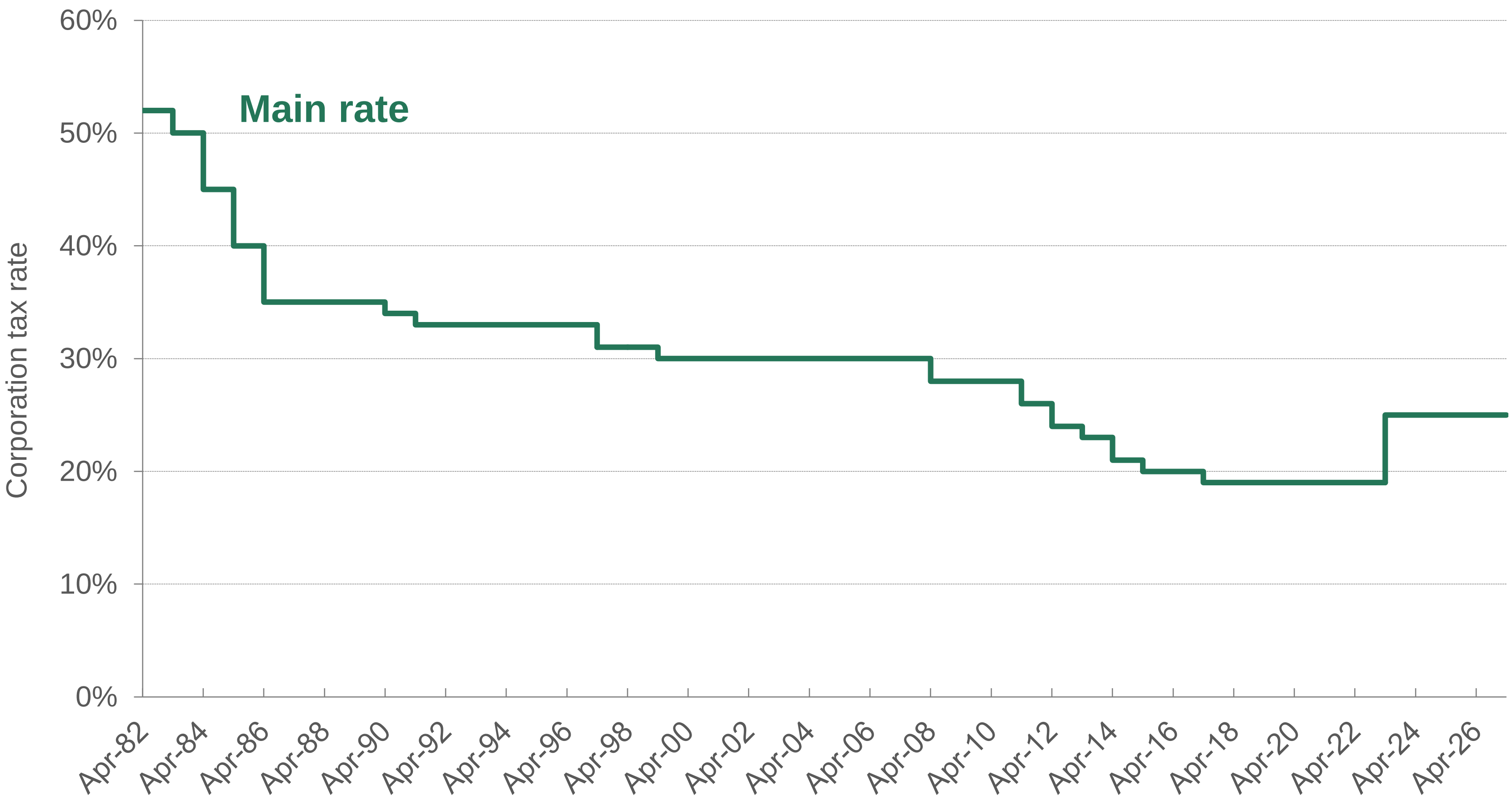

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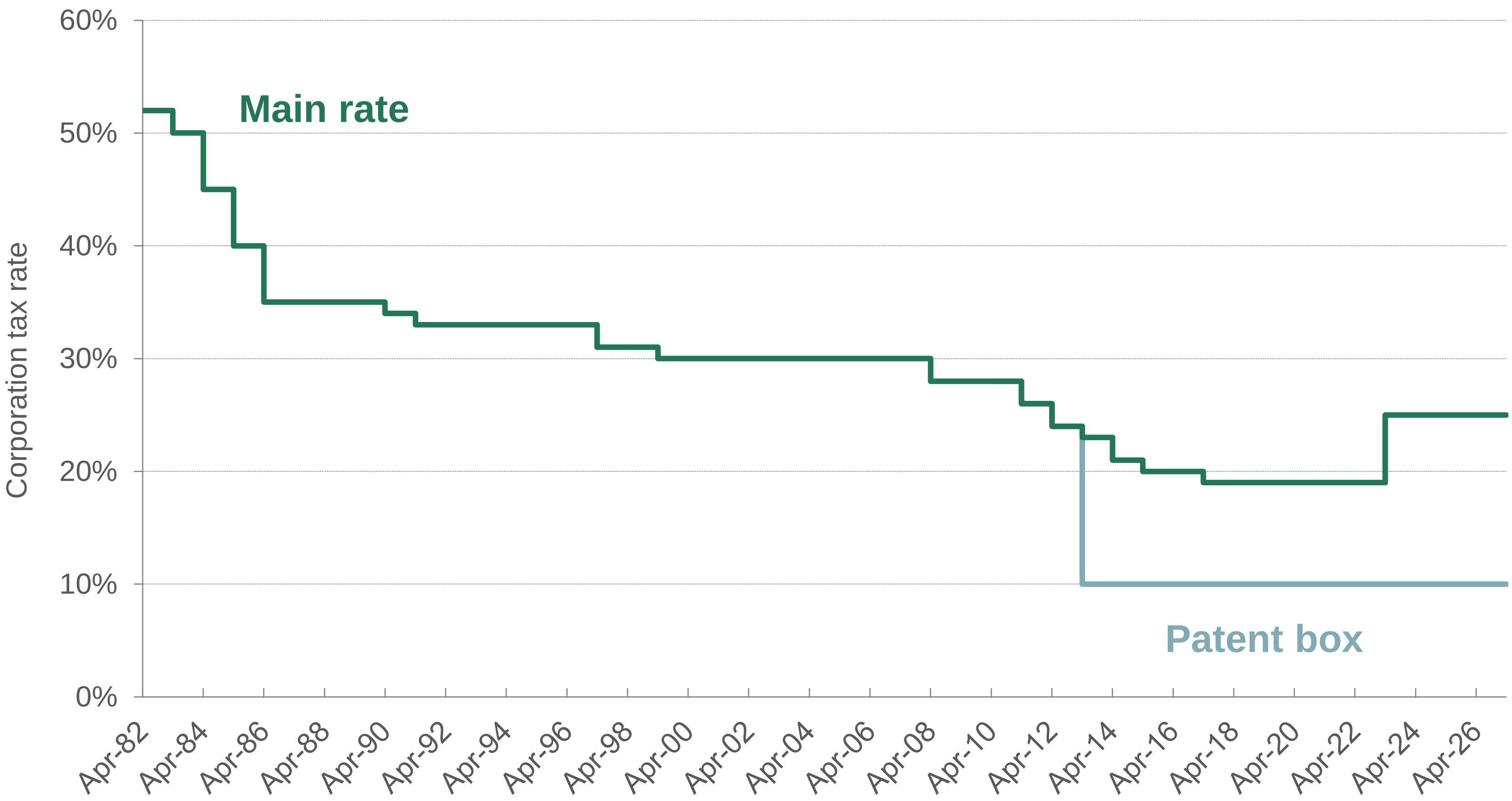

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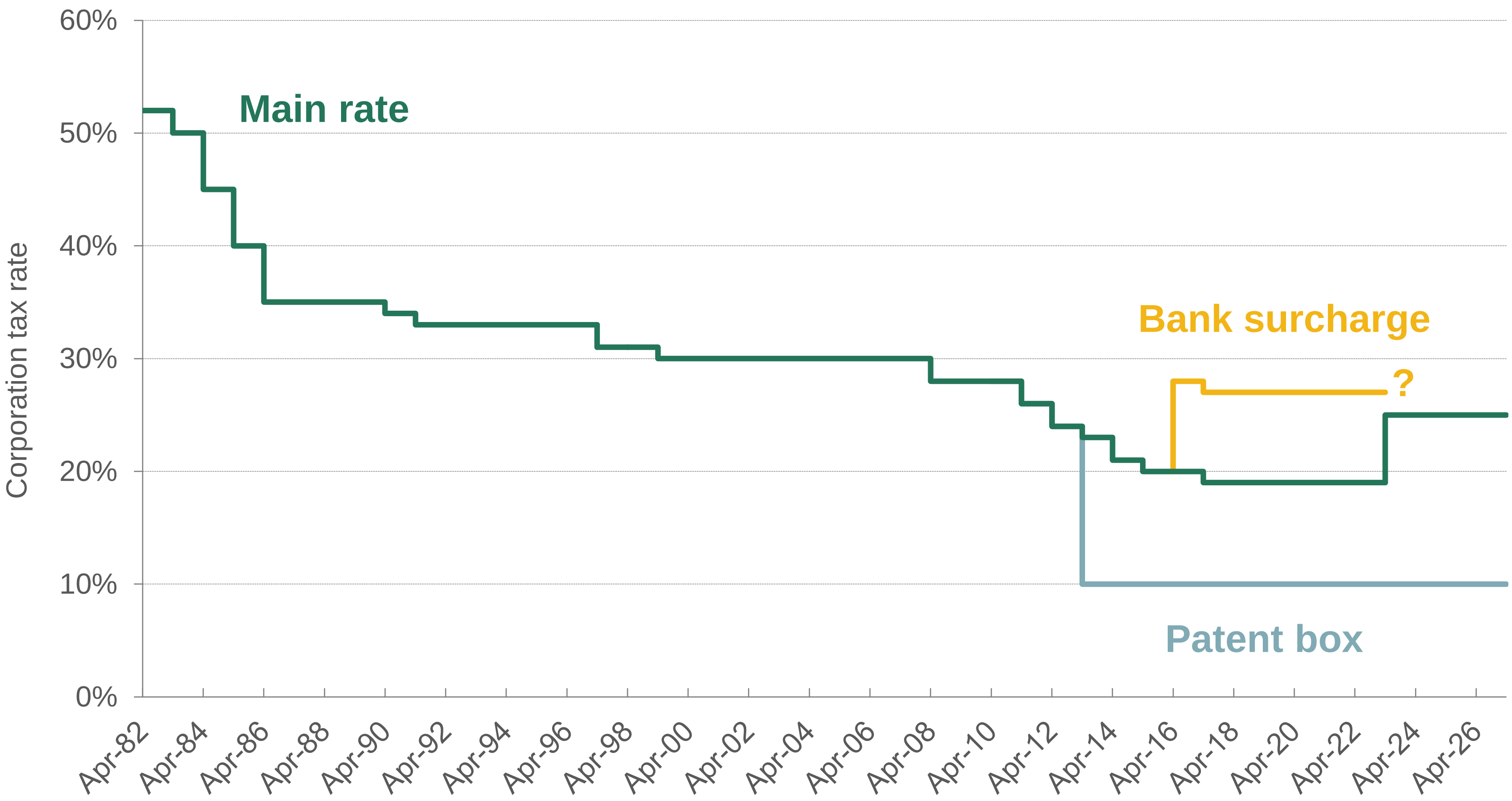

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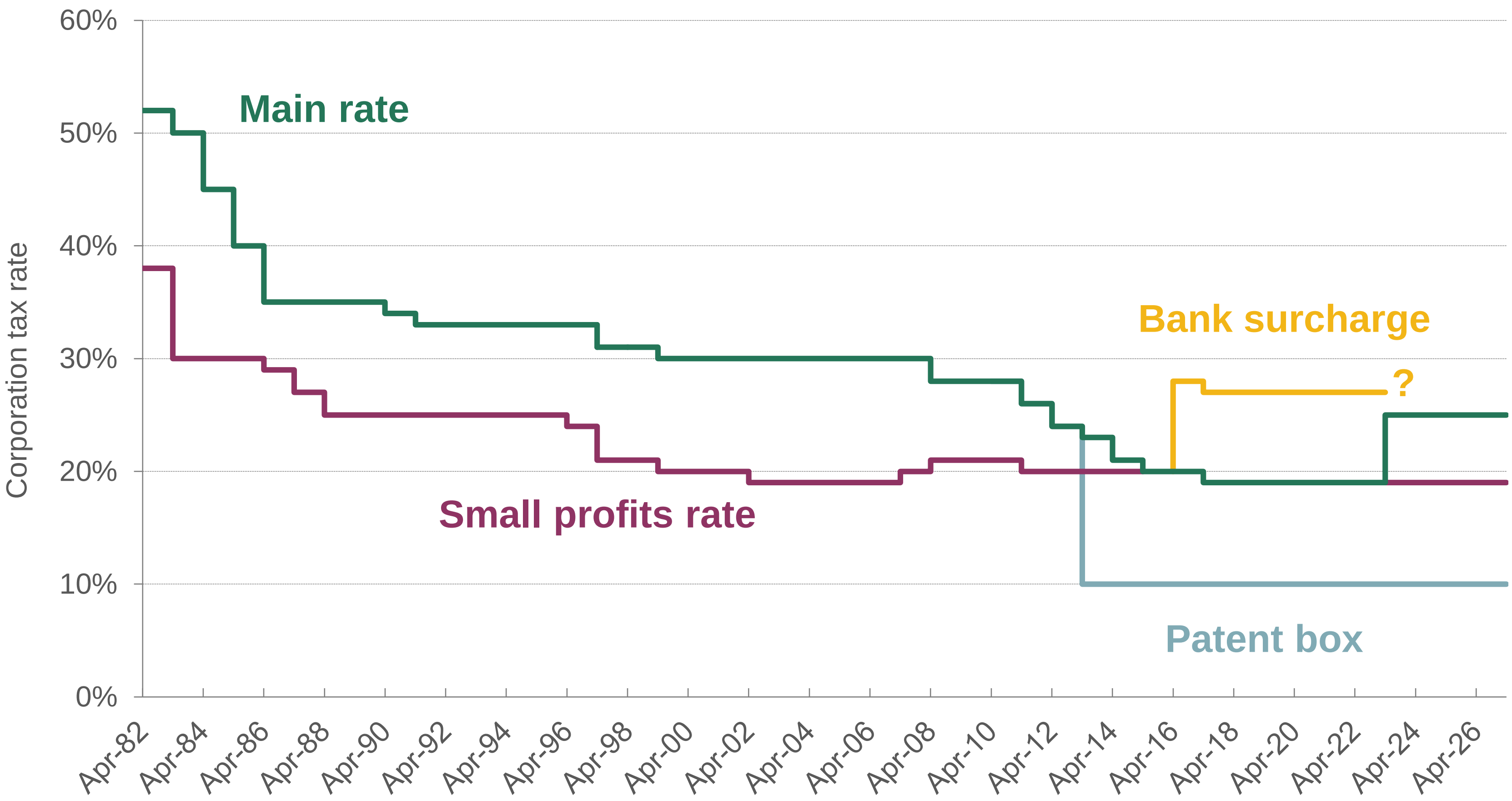
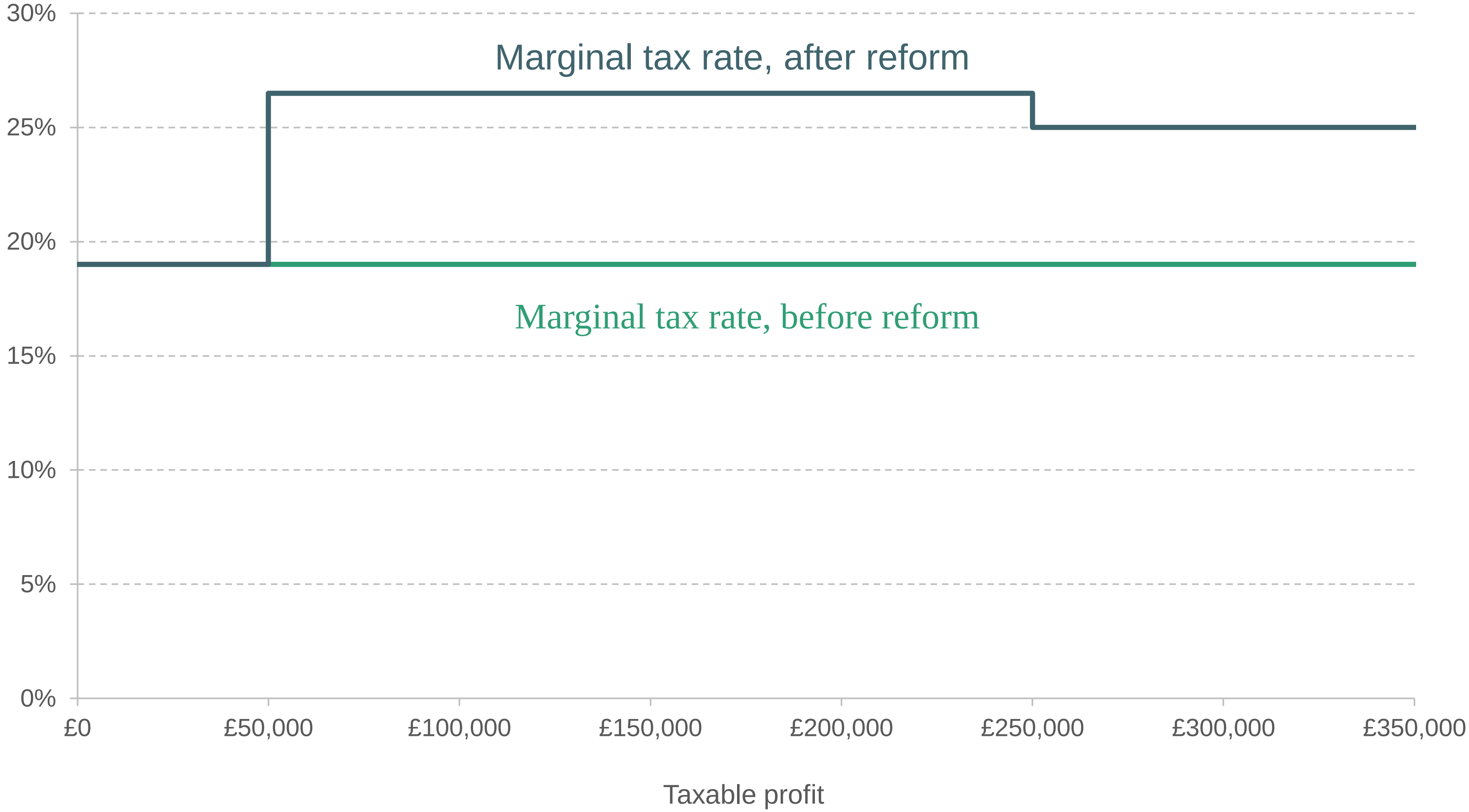


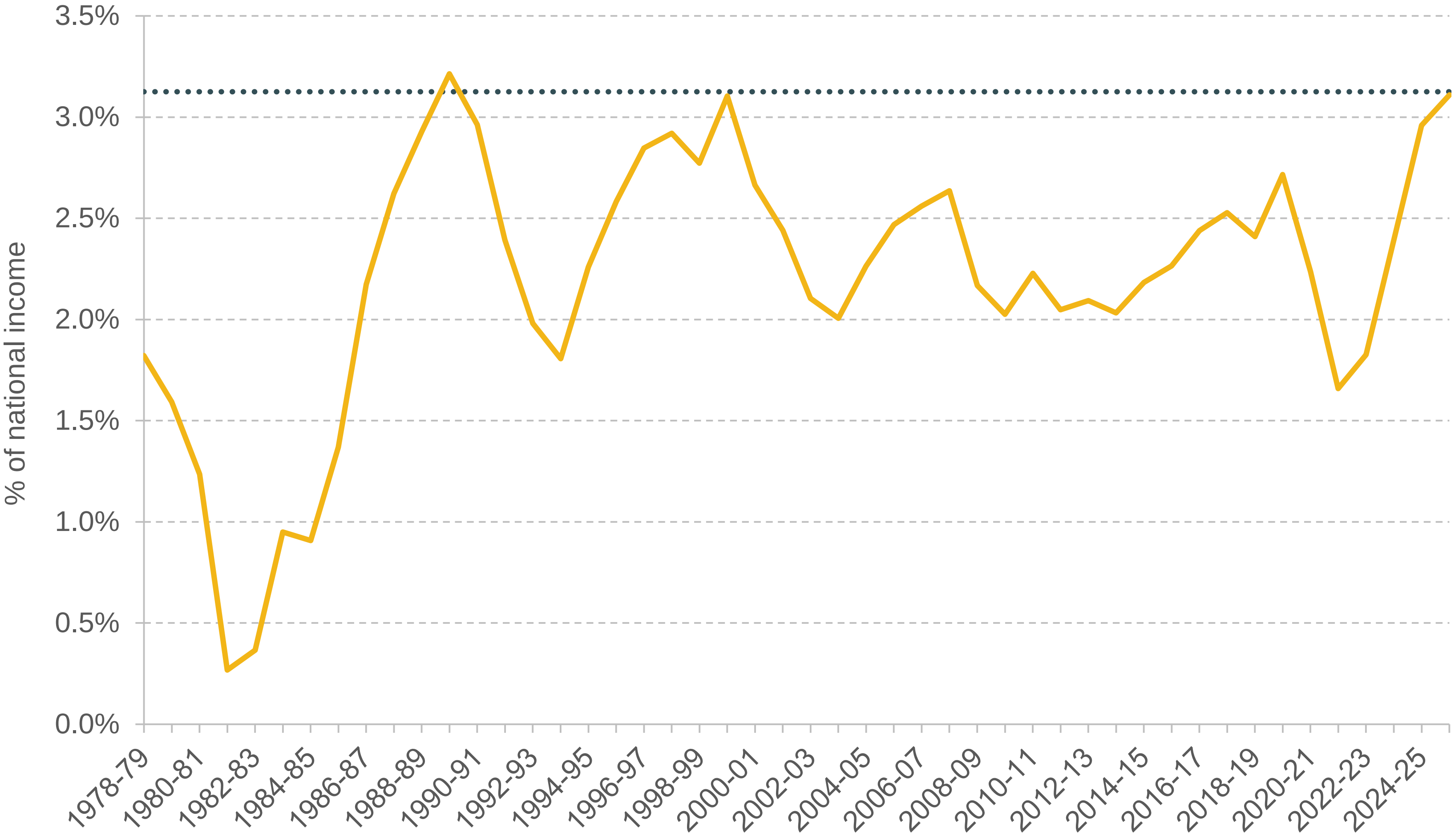
Corporation tax schedule



Increasing the main rate of CT

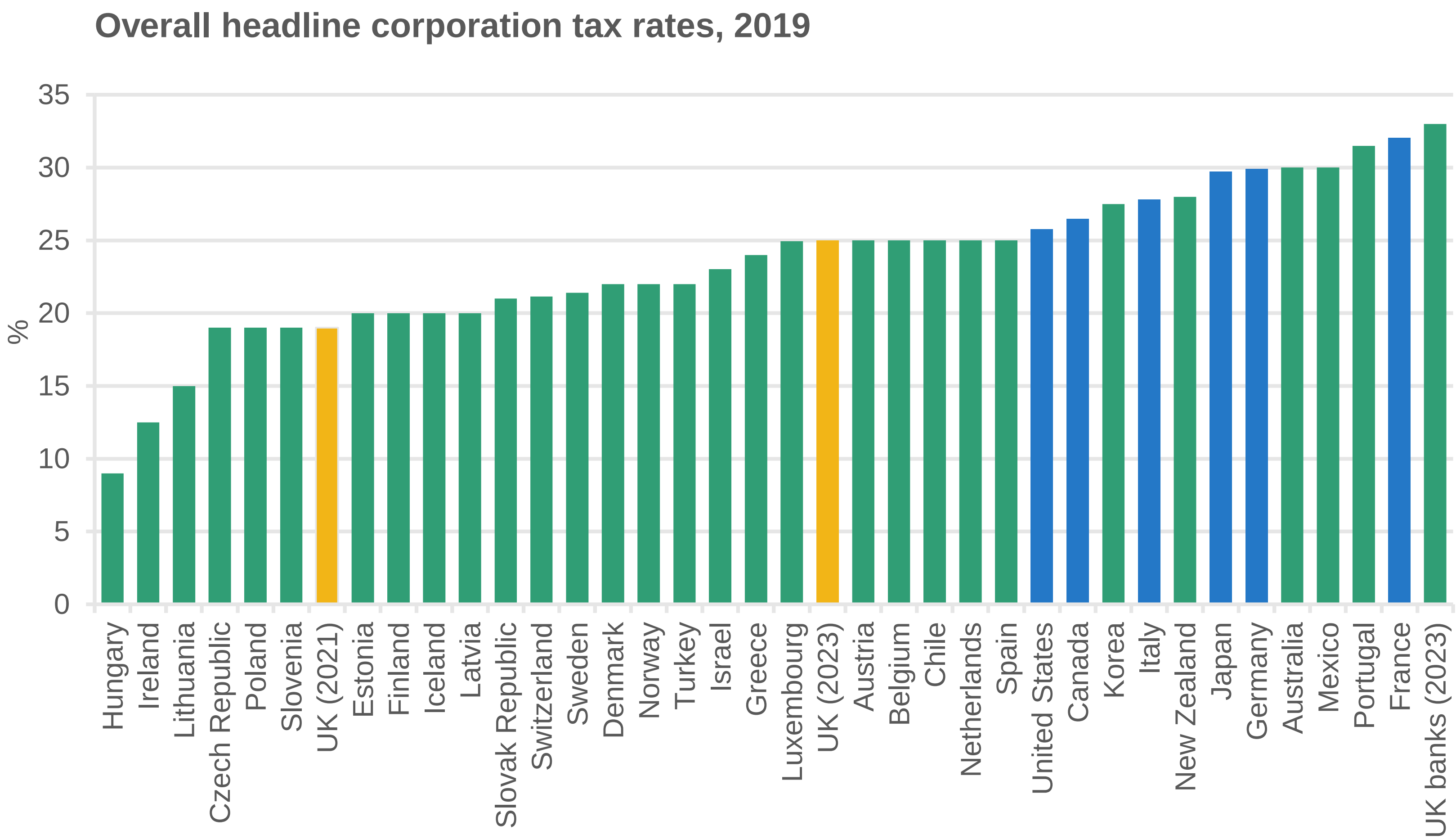
- Higher rate worsens all the existing problems with corporation tax
  - Disincentives to invest, bias towards debt,...
- Headline revenue estimate of £17bn a year by 2025-26
  - Allows for some profit-shifting out of the UK
  - But not for reduced investment
  - Long-run yield will therefore be lower
- Revenue comes from companies making big taxable profits
  - Ultimately felt by shareholders, employees and customers

Onshore corporation tax revenue



Source: Figure shows onshore receipts (including bank surcharge). Author's calculations using OBR public finance databank.

Still a low tax rate?



Note: includes sub-national taxes. Source: OECD.

Still middling tax revenue?

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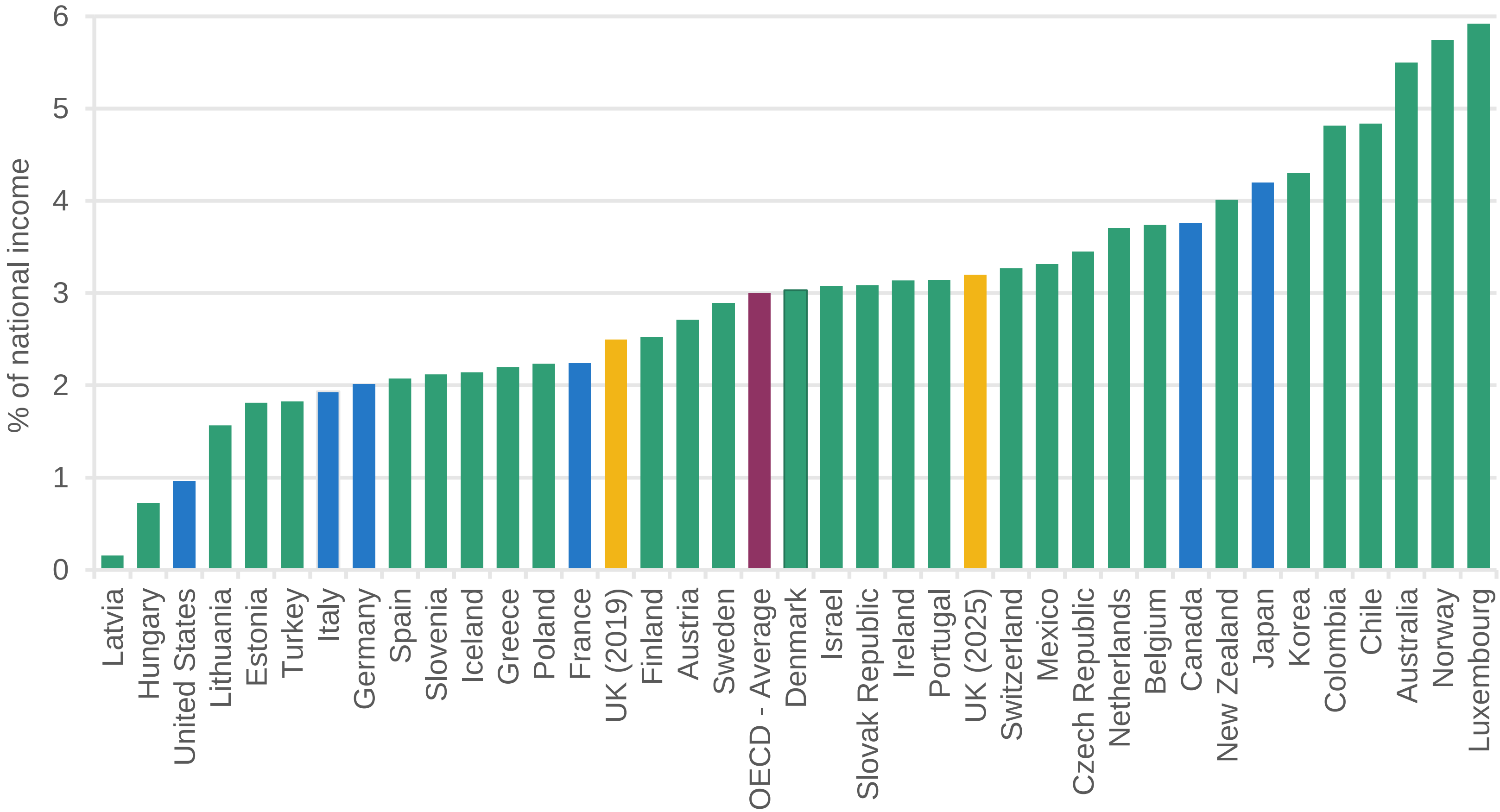
Corporation tax revenue as a share of national income, 2019



Source: IFS calculations and OECD Revenue Statistics

Loss relief

- Firms that make losses can deduct them from profits in other years
- Can carry losses forward indefinitely to set against future profits
- But can usually only carry back for 1 year to set against past profits
- Now, losses (up to £2m) incurred in 2020-21 and 2021-22 can be carried back for 3 years
    - Similar policy in financial crisis and early 1990s recession
- Good!
    - A profit in one year and a loss in another should ‘cancel out’ wherever possible
- But why only temporary?

A Super Deduction

- Investment spending is deducted from taxable profits over several years
  - Under the annual investment allowance, can already deduct 100% of plant & machinery investment immediately, up to a cap of £1m (due to fall to £200k in January 2022)
- In 2021–22 and 2022–23, companies will be able to deduct 130% of plant & machinery investment from taxable profits
  - Also increase from 6% to 50% for some other investments
- Strongly encourages investment in those two years
  - Investment brought forward from future years
  - Additional investment that wouldn't otherwise happen at all
- £29bn cost initially, but will increase revenue in future
  - If investment is brought forward, deducted now instead of later
  - If investment is additional, will tax proceeds later

A Super Deduction?

- Is this a good idea?
- Effective short-term fiscal stimulus, if that is needed. But…
- Investment brought forward means a ‘hangover’ to follow
  - Distorting timing of investment usually harmful – justified now?
- Additional investment may be economically unviable without subsidy
  - Should we be encouraging even ‘bad’ investments?
- Unpleasant side-effects
  - Bias towards plant & machinery vs. e.g. buildings or intangibles
  - Risk of tax avoidance and fraud

Conclusions

- Announcements highlight unresolved longer-term challenges
- Corporation tax rise will bring in substantial revenue
  - But unnecessarily damaging because of CT’s underlying flaws
- Investment subsidy and loss relief will provide a short-term boost
  - But long-run treatment of investment & losses needs improving
- Extension of business rates relief & grants is welcome
  - But we still await a fundamental reform of the tax itself
- Freeports might help to regenerate the chosen areas
  - But largely at the expense of other areas
  - ‘Levelling up’ needs deeper solutions