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Full expensing for corporation tax

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UKRI Economic and Social Research Council

ESRC CENTRE FOR THE MICROECONOMIC ANALYSIS OF PUBLIC POLICY (CPP)

What was announced?

- Full expensing previously due to expire April 2026 – now permanent
- Deduct 100% upfront of qualifying plant & machinery investment
  - (and a 50% upfront deduction for long-life assets)
- Compares to previous system:
  - First £1m of investment already gets 100% deduction
  - Above that, investment costs deducted gradually over time
- Change doesn’t apply to:
  - All assets (e.g. cars, buildings, intangibles excluded)
  - Unincorporated businesses (sole traders & partnerships)

Not as big as it seems

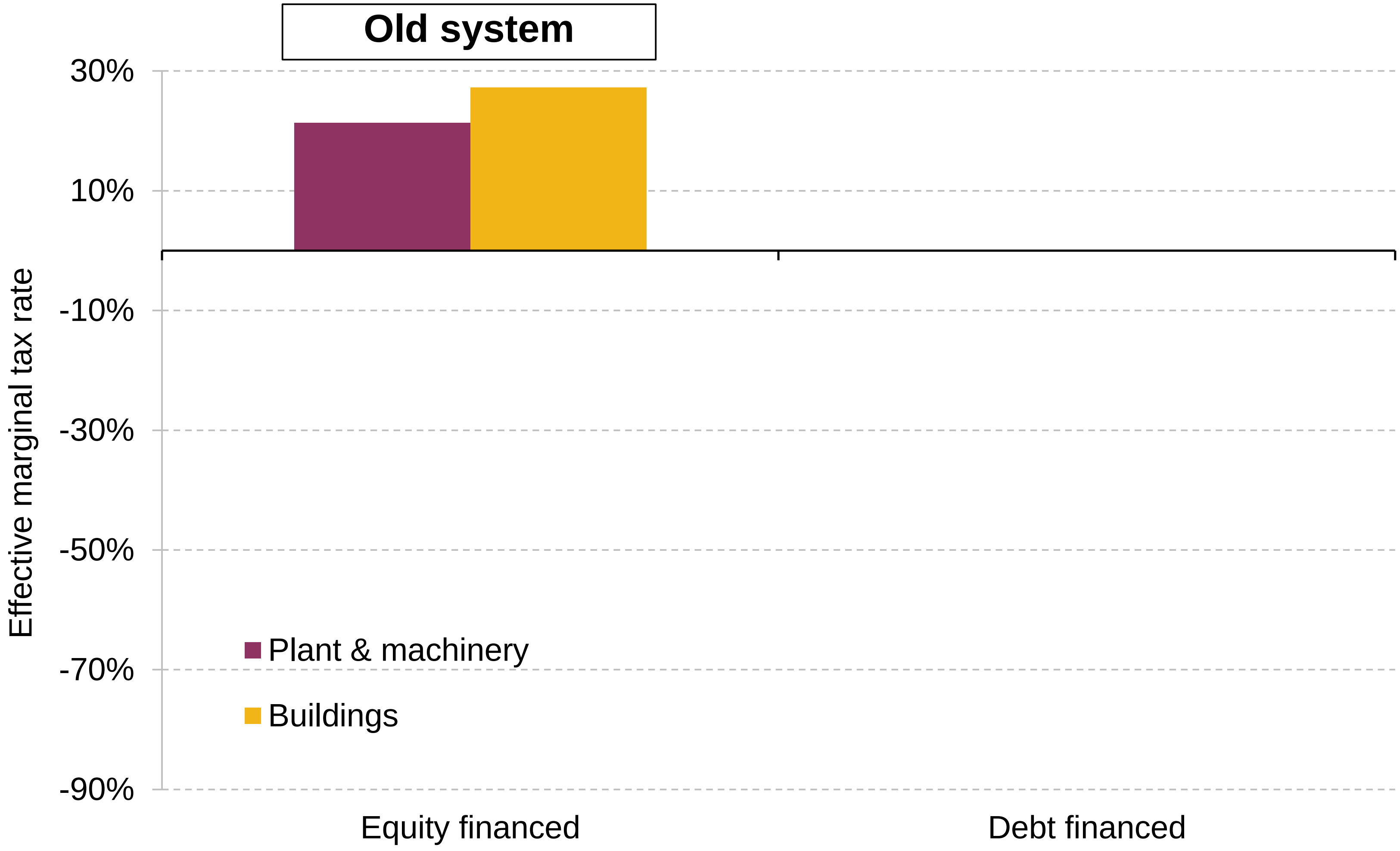
- The “biggest business tax cut in modern British history”?
- Treasury/OBR costing £11bn in 2028-29
- <u>But</u> upfront deductions are <u>instead of</u> deductions in future
  - …so Treasury get most of that back
- Purely a timing effect (not impact of more growth/investment)
- So long-run cost much lower (OBR estimates £3bn)
- And recall increase in main rate from 19% to 25% raises £19bn

Effects on investment incentives

Note: Chart shows effective marginal tax rates (EMTRs) on two example investments. The EMTR is the share of the investment return taken in tax for a break-even investment. Plant & machinery investment is assumed to be in a main rate pool asset.

Source: See IFS Green Budget 2022, Chapter 6 for details.

Effects on investment incentives



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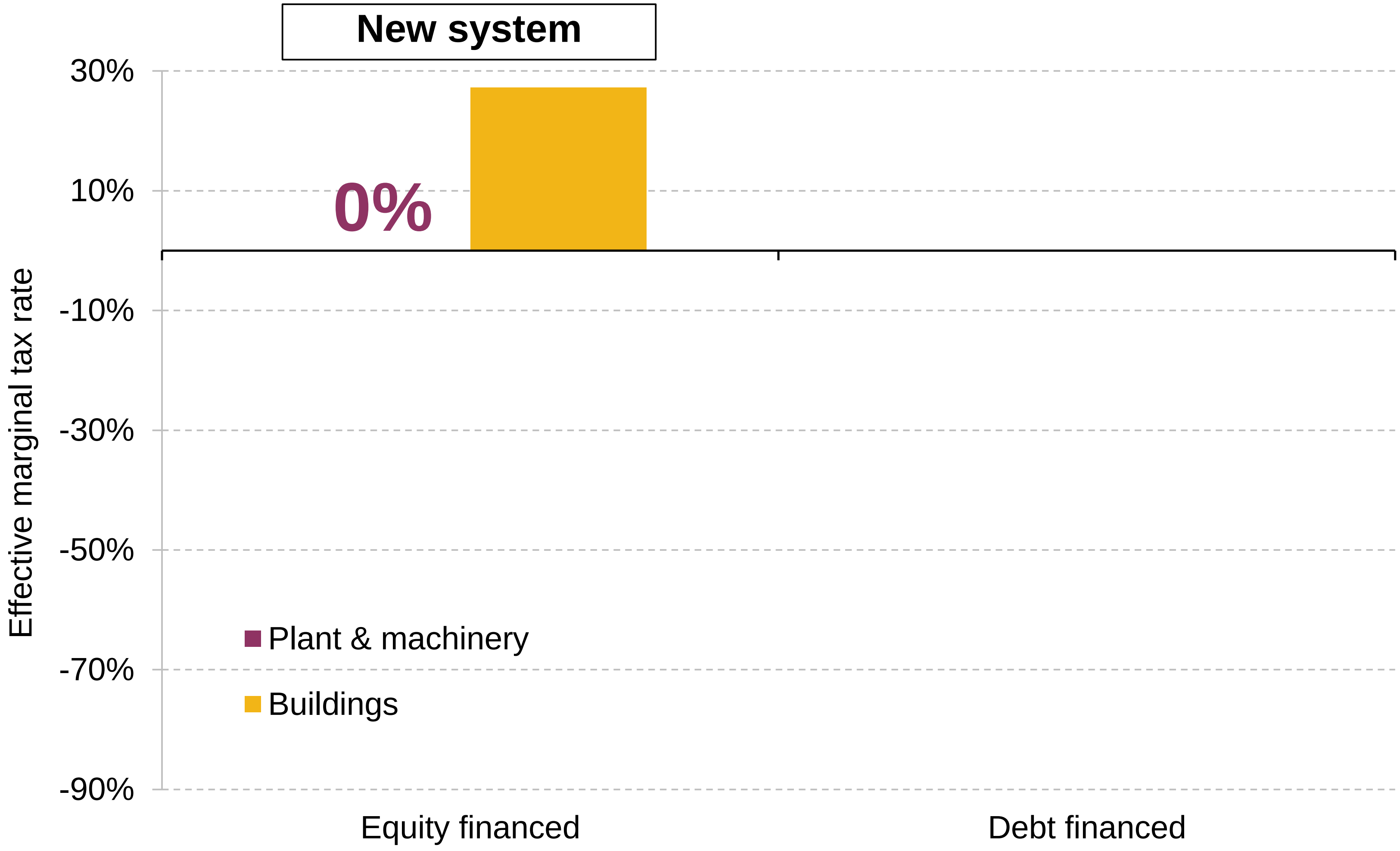

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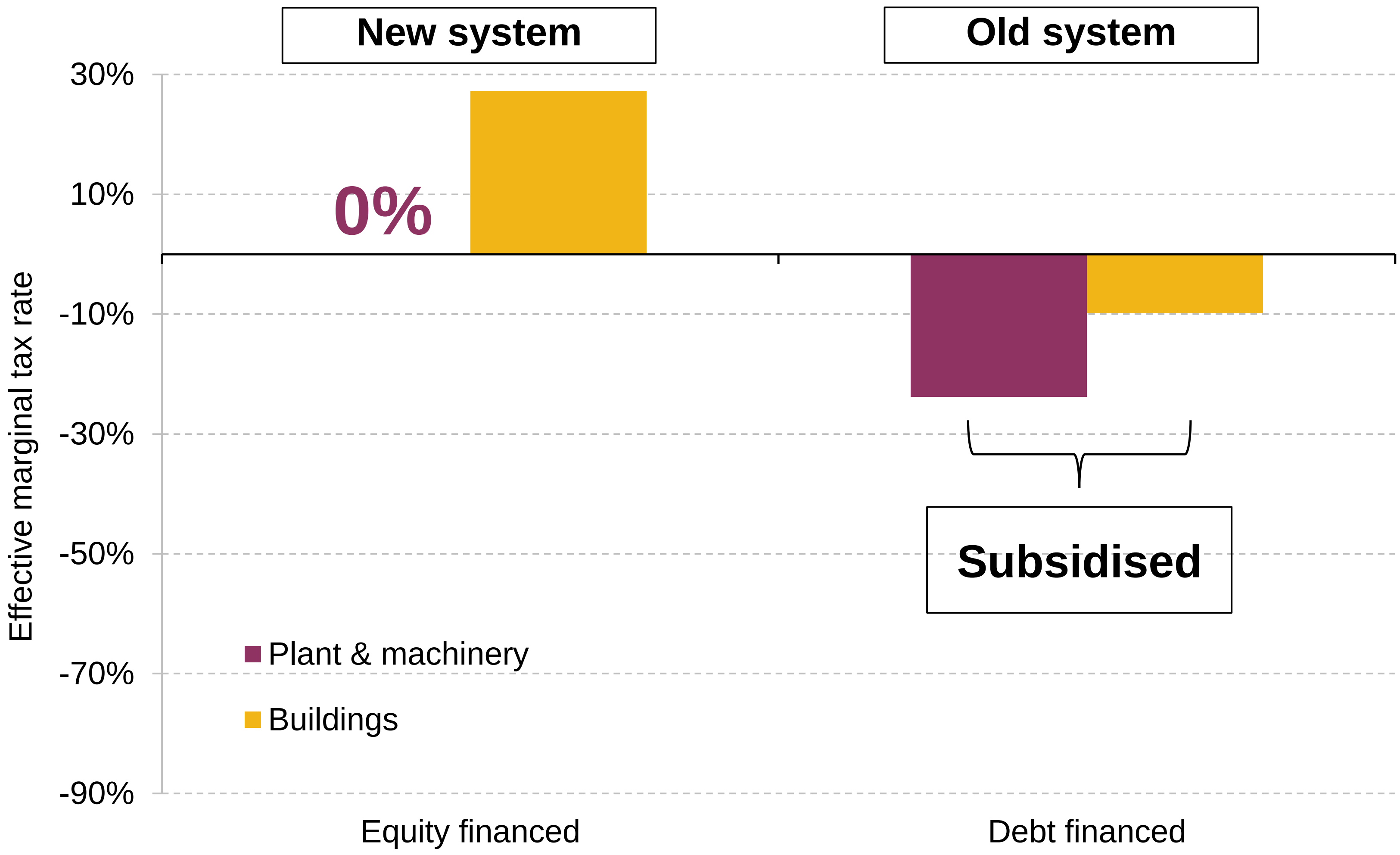

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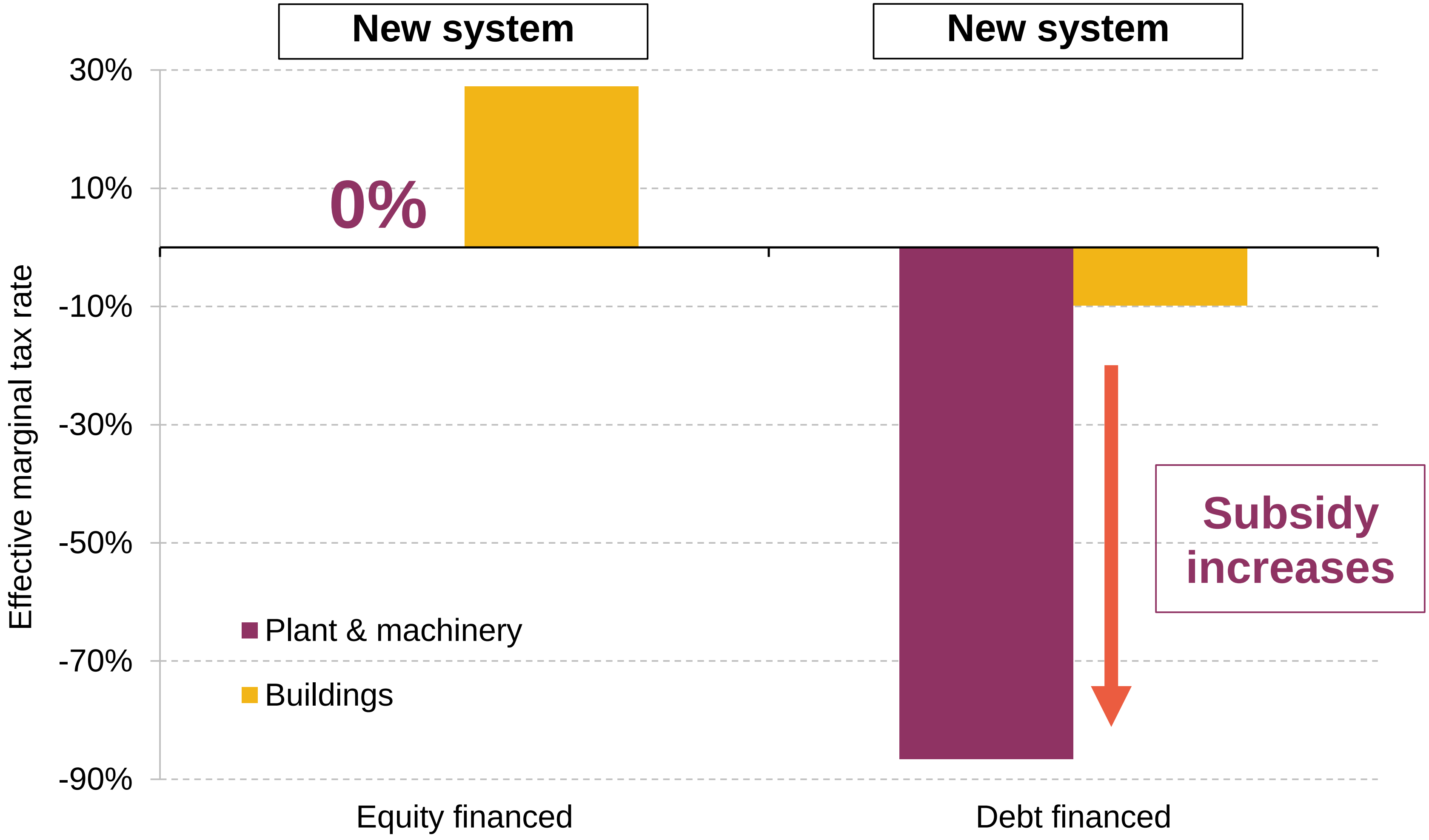

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Welcome, but incomplete

- Some positive aspects of yesterday’s reform
  - Simplifies the system
  - Ends disincentive for qualifying equity-financed investment
- But significant downsides
  - Creates a bias towards investing in qualifying assets
  - Exacerbates subsidy for qualifying debt-financed investment
- Part of a change in direction in corporation tax
- On balance welcome, but only a first step
  - Extend to all assets & businesses
  - Address subsidy for debt-financed investment

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