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Stuart Adam

@TheIFS

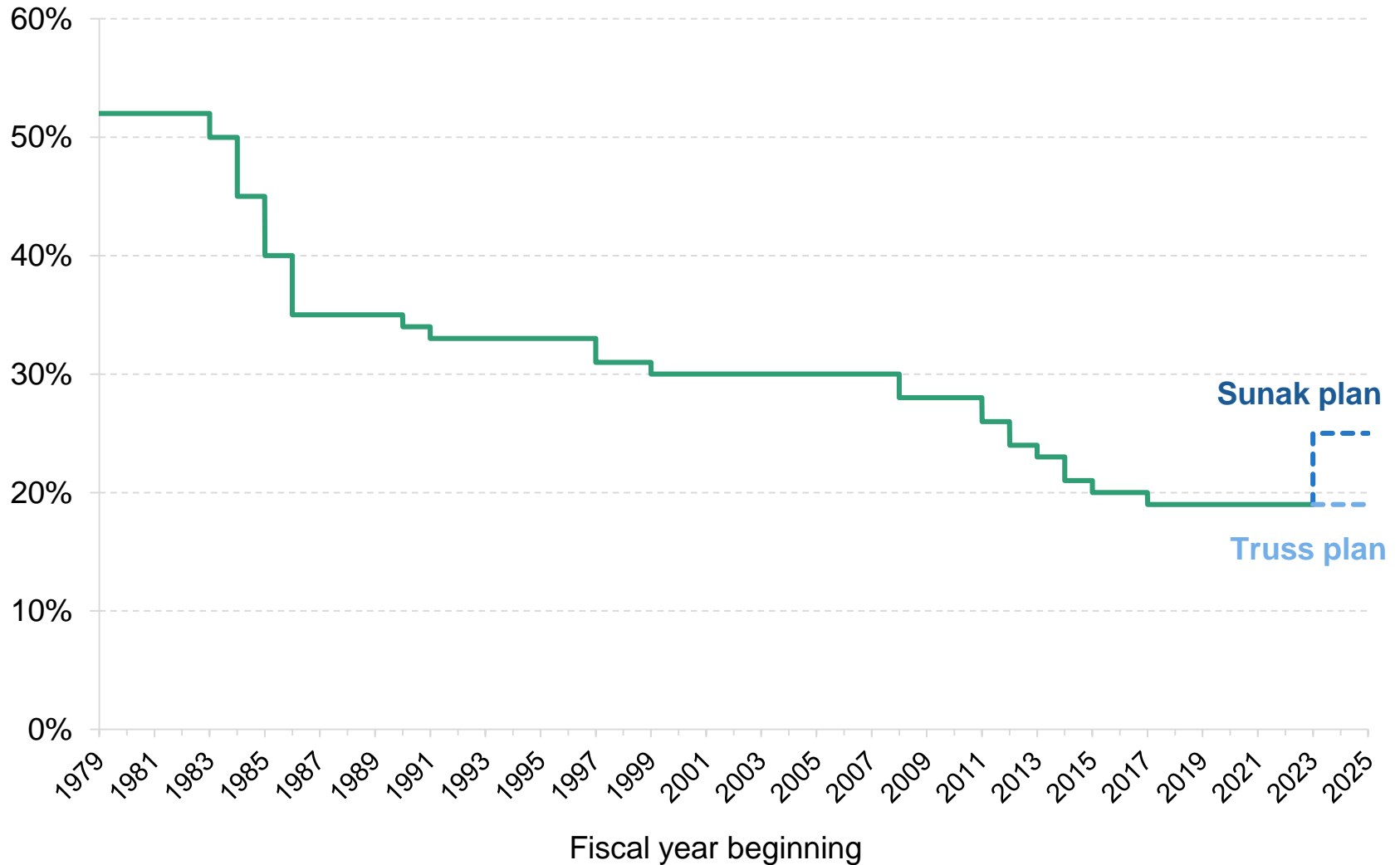
Business tax



Economic
and Social
Research Council



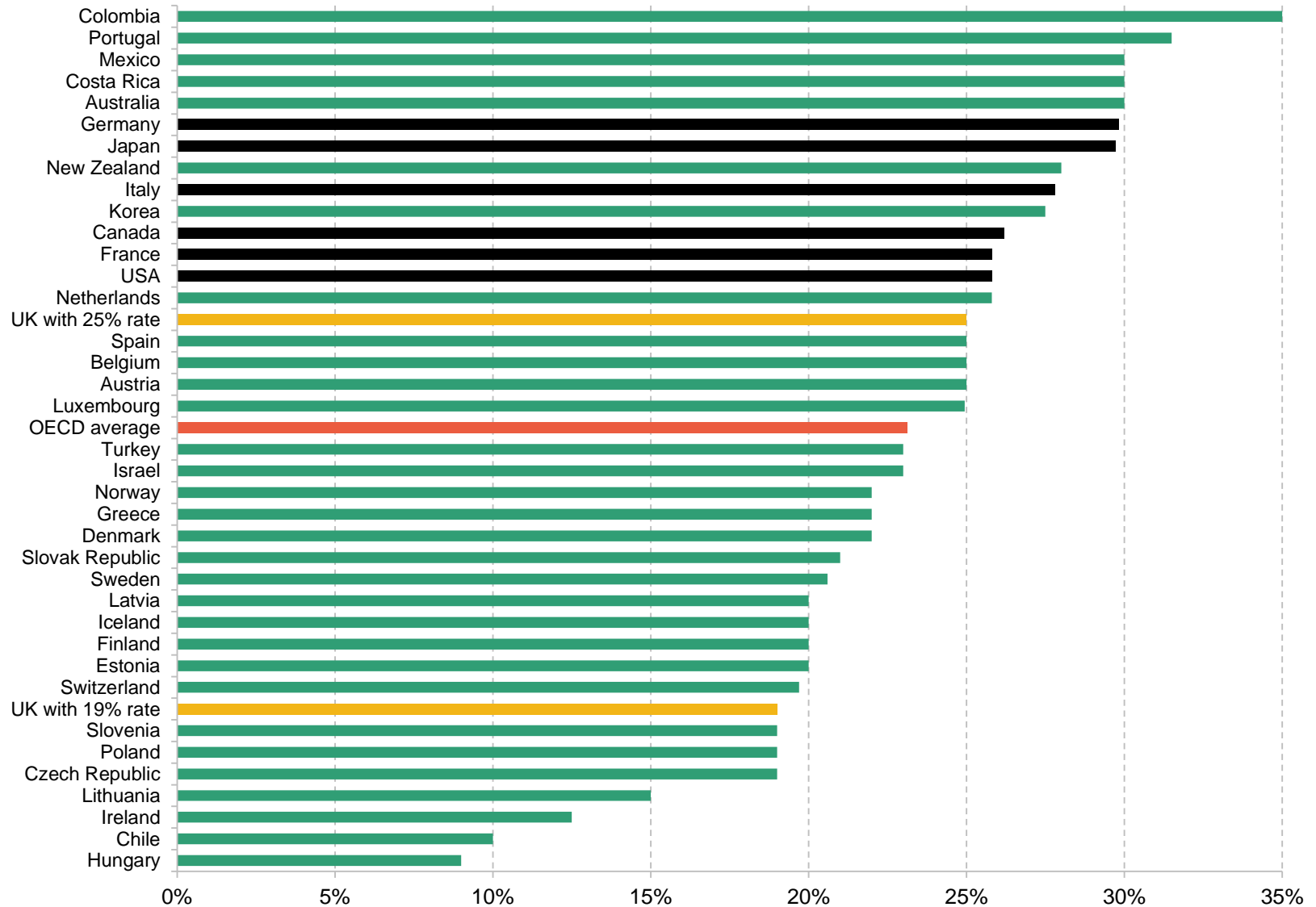
The main rate of corporation tax



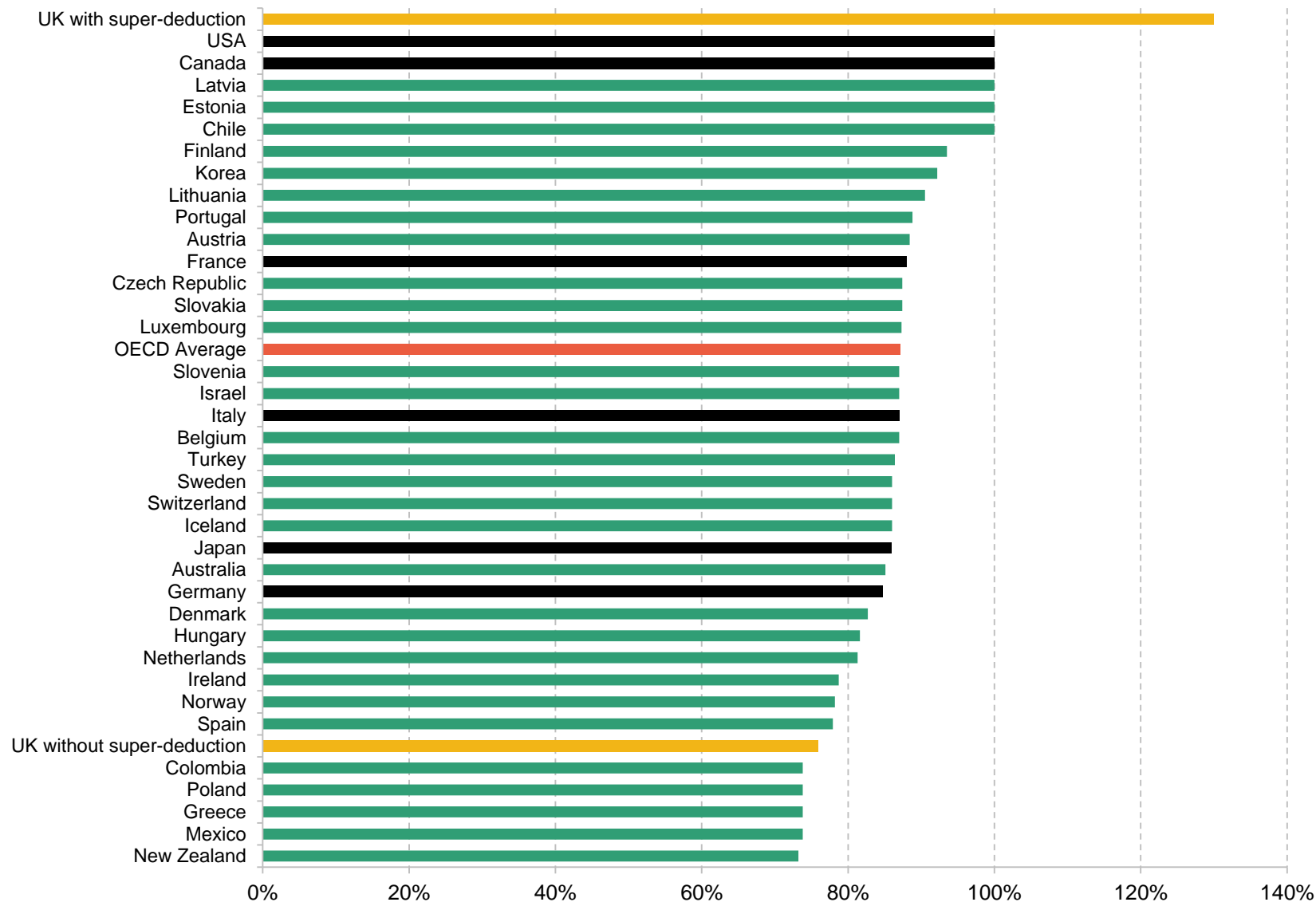
Cancelling the rate rise

- Wouldn't affect all profits:
 - Companies making profit below £50k (£50k–£250k partially affected)
 - North Sea oil & gas producers
 - Income from patents
 - Banks (will cut to bank surcharge go ahead?)
- Treasury/OBR figures imply a cost of £15bn a year in today's terms (£16bn if keep cut in bank surcharge)
 - Ignores boost to UK investment
 - So true cost likely to be significantly lower
 - But still well above zero: lower rate won't mean higher revenue

Headline corporate income tax rates, 2022



Allowances for plant & machinery investment, 2021



Beyond the headline rate

- Spring Statement suggested increasing capital allowances in April 2023
 - Policy paper in May seeking views on various options
- Sunak argued better targeted at increasing investment
- Debatable
 - In domestic context, capital allowances better targeted
 - In international context, headline rate relatively more important
- Does cancelling rate rise mean no changes to capital allowances?
 - Could do both – especially if looking to promote investment
- Should reform structure of the tax, not just tweak rates & allowances
 - Address distortions to form & financing of investment as well as level

- Big changes to tax bills due in April 2023
 - Average bills (before reliefs) rise with Sept 2022 CPI inflation (10%?)
 - Revaluation: tax (relative) values in April 2021 rather than April 2015
 - Changes phased in gradually
 - Temporary 50% relief for retail, leisure & hospitality ends

- Lots of firms facing big tax rises – will that be allowed to happen?

Summary



- Stated intention to cancel the 1st rise in headline corporation tax rate for half a century
 - Will reduce revenue, though by less than the £15bn official estimate
- Might want to find money to ease business rate changes due in April
 - Not necessarily tomorrow
- Will there be a raft of other announcements?