



Institute for Fiscal Studies



Business tax road map

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Corporation tax - BEPS actions

- Extend scope of hybrid mismatch rules
- Changes to withholding tax on royalties
- Implement new Patent Box approach
- Incorporate new Transfer Pricing Guidelines
- Country-by-country reporting
- Ongoing work on a multilateral instrument
- Restrict interest deductibility

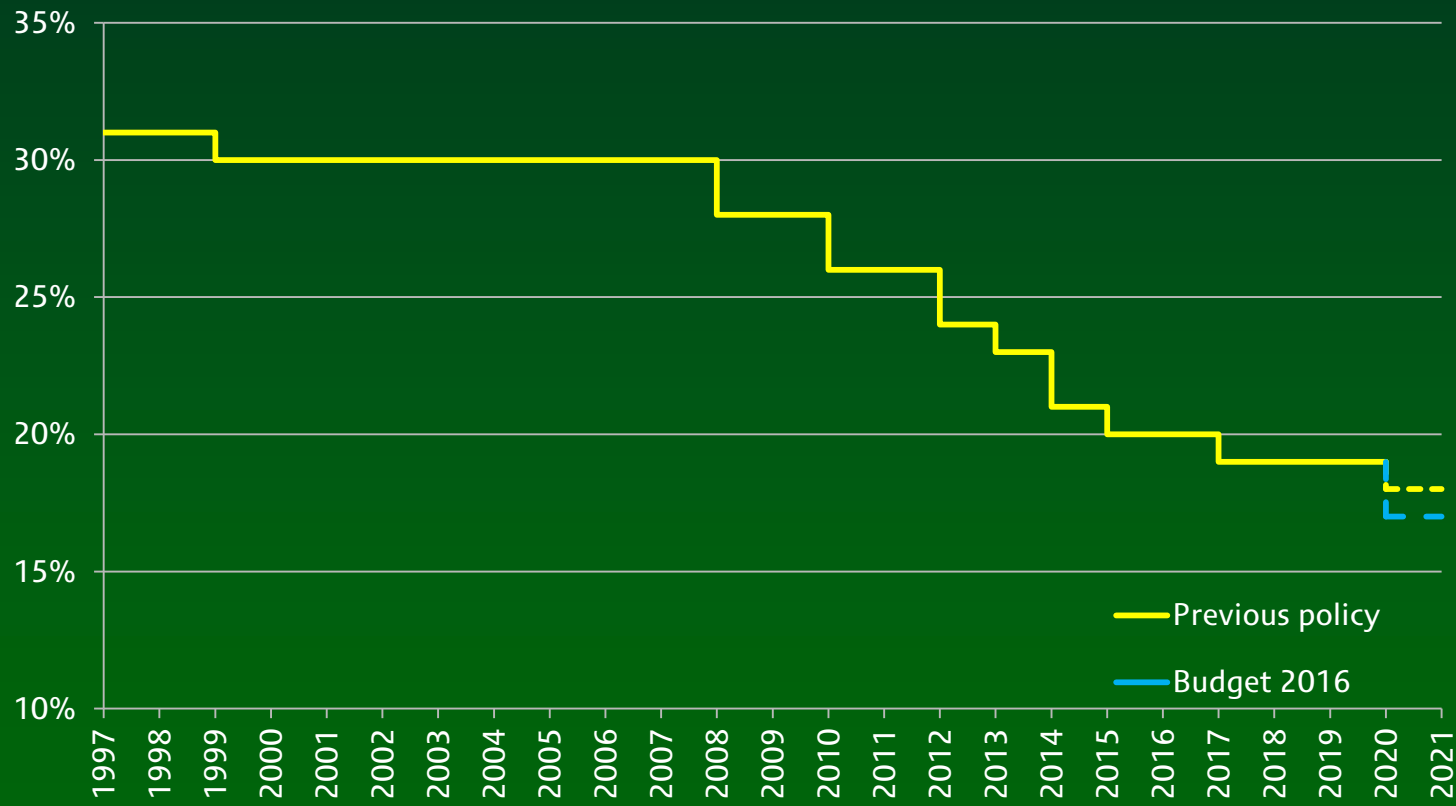
Corporation tax - restrict interest deductibility

- Anti-avoidance rule involves a trade-off between preventing avoidance and distorting genuine activity
- From Apr 2017 limit interest deductions to 30% of EBITDA (taxable earnings)
- Reduced effect of rule on:
 - domestic UK groups (removed via group rule)
 - public benefit infrastructure (exemption)
 - firms with net interest below £2mn (de minimis threshold)
- More stringent rule than the current UK provision
 - raise: £1.2bn 2018-19, £1bn 2019-20
 - contrast with position in 2010 roadmap:

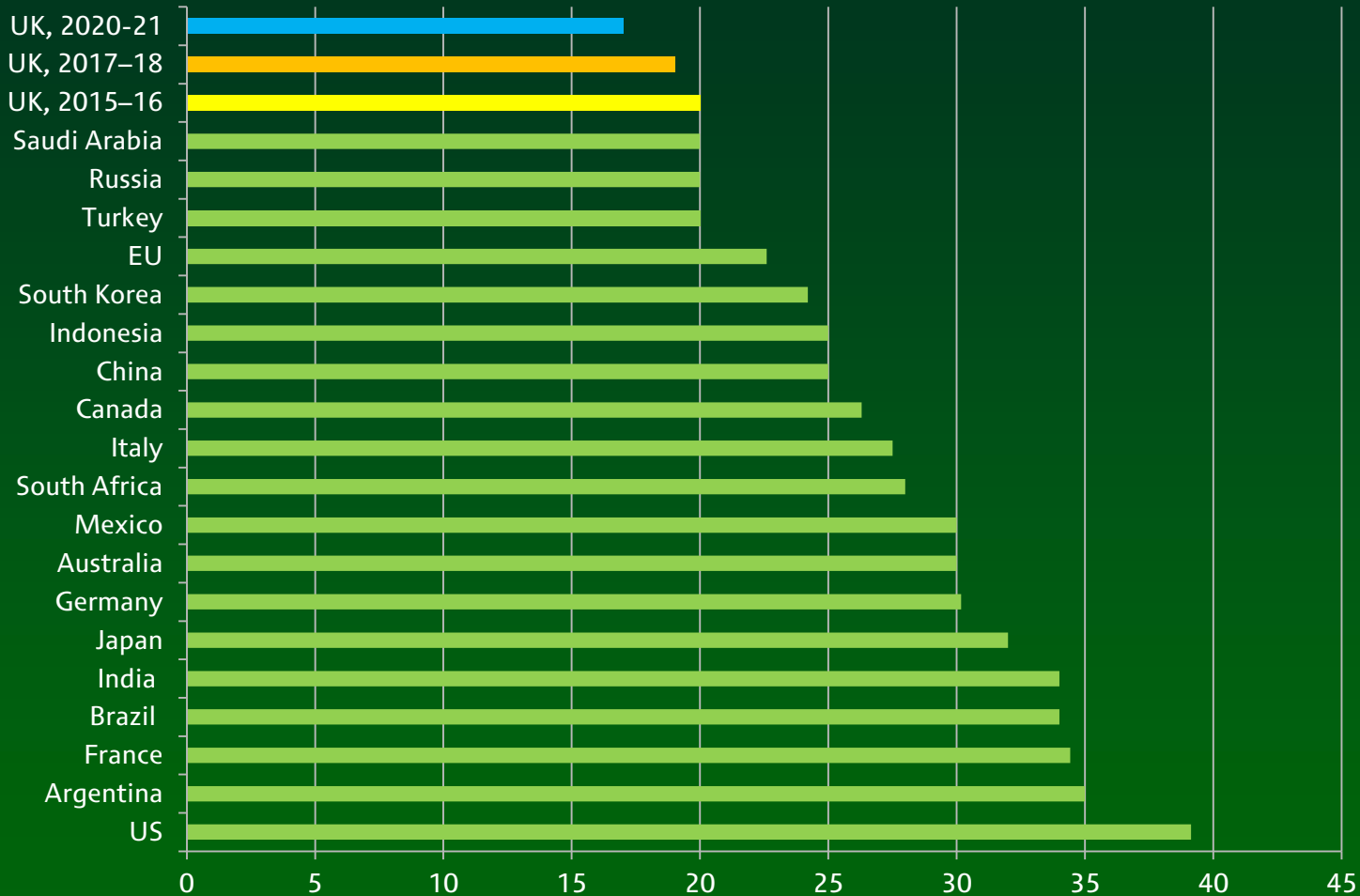
‘UK’s current interest rules, which do not significantly restrict relief for interest, are considered by businesses as a competitive advantage’

Corporation tax - revenue shifts & rate cut

- Shift timing of payments to bring in £6bn in 2019-20
- Rate cut further to 17%; costs ~£2 billion



Corporation tax rates in G20



Corporation tax - restrict loss offsets

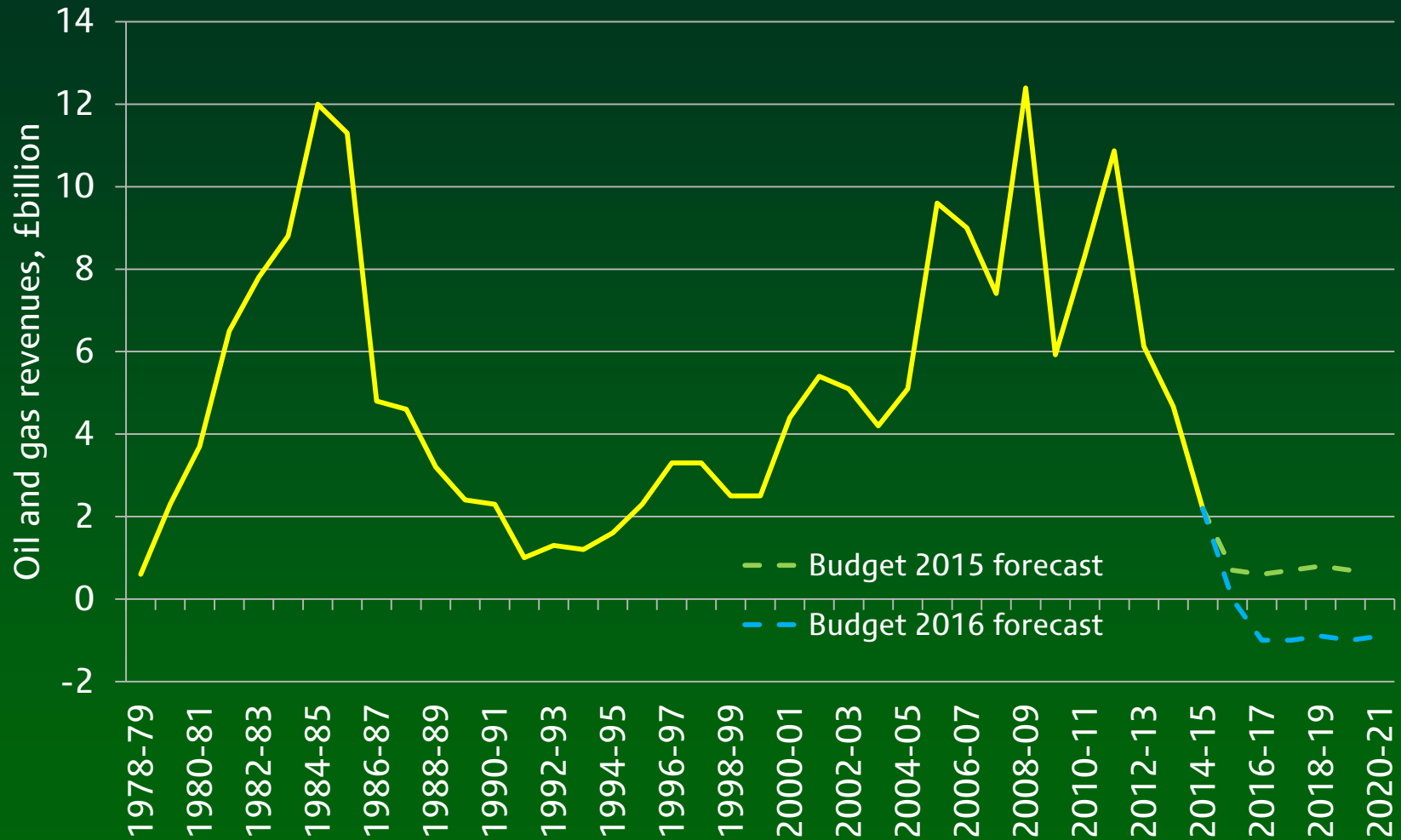
- Good tax system would give full loss offsets
 - asymmetric treatment discourages risk taking
- From Apr 2017 losses can be offset against other income streams or other companies within a group - a good move that adds flexibility
- Also restrict carried forward loss offsets to 50% profits, if profits above £5 million – not a good move
- Raises: £415m 2018-19, £295m 2019-20, largely just brings revenue forward
- Further restrict banks' pre-2015 losses
 - raises: £465m 2018-19, £375m 2019-20, largely just brings revenue forward



North Sea oil & gas

- Petroleum revenue tax to 0%
 - kept in place to allow decommissioning costs
- Supplementary charge from 20% to 10%
- Both backdated to 1 January 2016
 - cost: ~£0.2bn a year from 2016 – 17

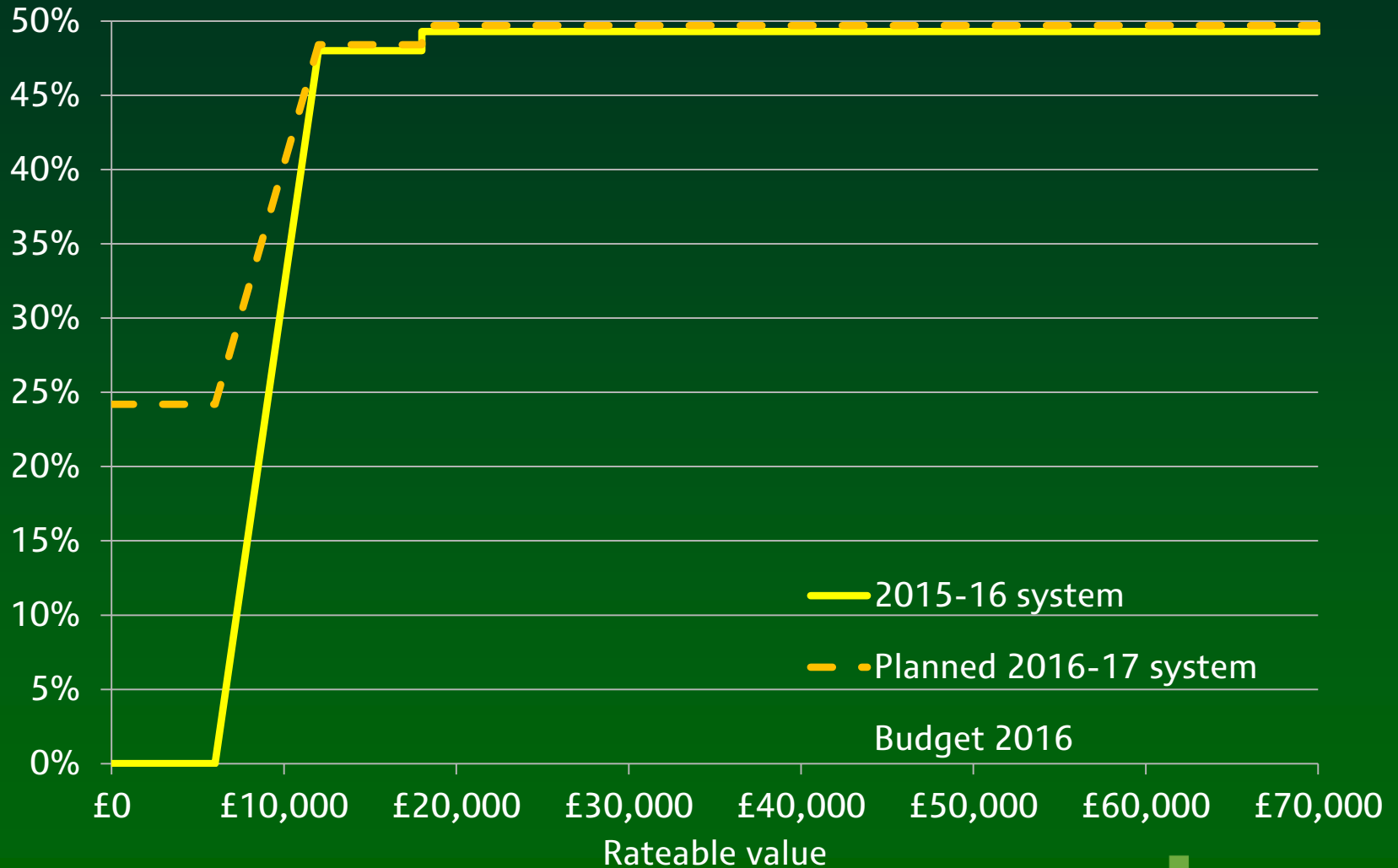
North Sea oil & gas revenues



Business rates

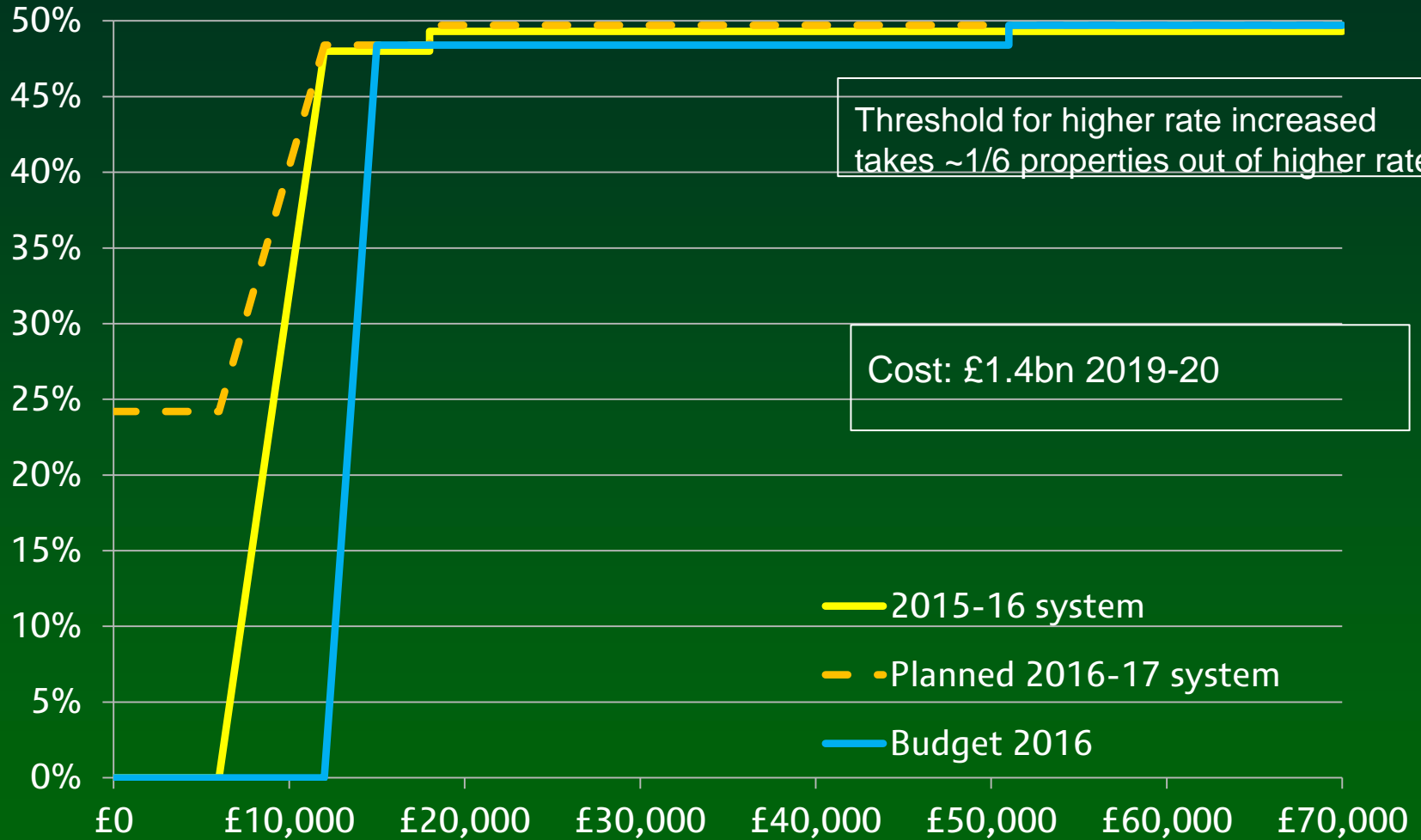
- Tax on rental value of non-residential properties
- Policy change *‘to ensure ... system remains fit for purpose in the twenty-first century’*

Business Rates



Budget 2016

Business Rates



Threshold for higher rate increased
takes ~1/6 properties out of higher rate

Cost: £1.4bn 2019-20

- 2015-16 system
- - Planned 2016-17 system
- Budget 2016

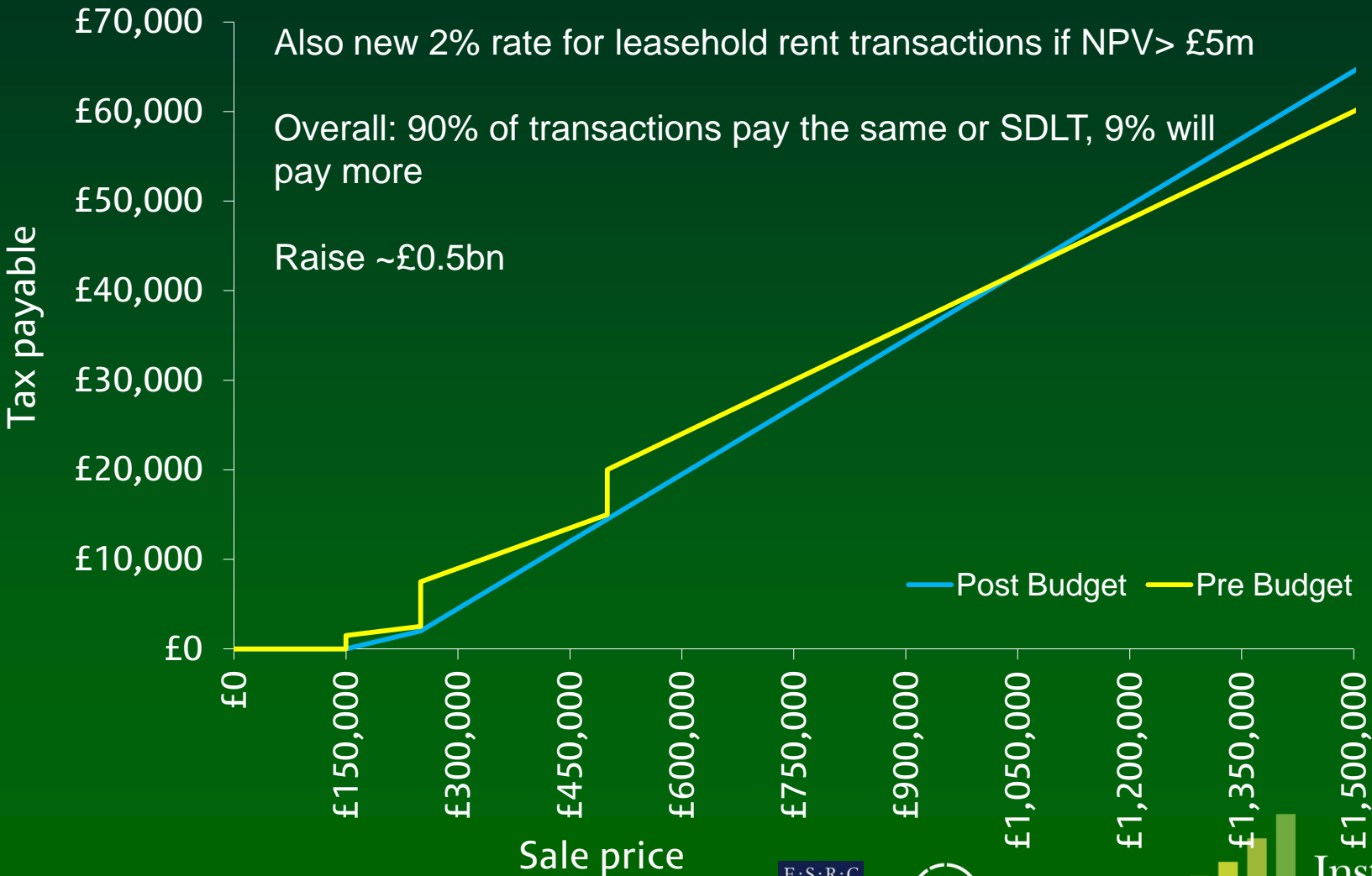
100% Small Business Rate Relief made permanent, threshold increased takes ~1/3 properties out of tax

Business Rates

- Move indexation from RPI to CPI from Apr 2020
 - not clear why index to inflation, but RPI discredited
 - revenues will increase less quickly
- Consult on more frequent revaluations
- Business rates revenues retained by local authorities by 2020
 - plan to compensate for Budget 2016 policy changes
 - in future, policy change at central government will affect revenue streams of local authorities
- Doesn't deal with main concern: levied on value of business property & therefore distort decisions



Stamp duty on non-residential property



Summary

- For large business
 - cut to rate
 - BEPS actions, inc interest deductibility
- For ‘small’ business
 - cut to rate
 - Business rates, include SBRR for those occupying low rental value property
- Business road map spans large number of areas but lacks vision
 - continued move towards low rates plus anti-avoidance
 - lots of small policies rather than discussion of design or ideas for substantial improvements

