Comment

Views on topical issues

What now for UK tax policy?

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Faced with a variety of tax challenges, the chancellor needs to spell out a unifying theme in his forthcoming Budget.

I've always maintained that the UK should have a tax system which 'looks as though it was designed to be that way' with a sound purpose, clear policy, certainty and fairness. Sadly, writing this between the general election of 7 May 2015 and the state opening of Parliament on 27 May, the multifarious tax issues facing the new government are such that any impressions of design, of policy are likely to be overwhelmed by pragmatism, plate-spinning and – inevitably – the occasional crash of breaking china.

Election pledges

Those worried that poor productivity in the UK is exacerbated by an overlying layer of complex tax regulations may have a point, but the Office of Tax Simplification (OTS) has done much to recommend, often successfully, necessary simplifications. It is therefore encouraging to see that the Conservative Party has pledged to expand the role of the OTS.

Other pre-election pledges are less welcome. The 'triple lock' of commitments not to increase VAT, income tax or NIC will quickly become handcuffs for the chancellor, unless everything goes according to plan for the new government. The consequence of this is likely to be piecemeal tax rises and the greater use of 'fiscal drag' to sneak through hidden tax increases.

In the continuing crackdown on tax evasion and avoidance, the pipeline of measures created in the last parliament will come 'on stream' with its resultant boost to the exchequer. We can expect to see much more activity in this area, and perhaps one last disclosure facility, as HMRC seeks to bring in an extra £5bn per year. That will inevitably affect the relationship between HMRC, taxpayers and their advisers. HMRC may regard that as a factor secondary to rebuilding its reputation in the eyes of Parliament and the public.

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The environmental question

Mention of pipelines brings us to the impact of taxation on energy policy generally and the future of the North Sea oil and gas fields in particular. There are concerns that the tax cuts promised by the last government will only benefit those companies which are actually paying tax.

At a time of a prolonged reduction in oil prices, profits and therefore tax liabilities are already depressed. Add to that, though, the immense costs of decommissioning, the need to juggle energy policy and environmental needs, and the difficulty in moving towards a carbon based system of taxes in the absence of any real European carbon price. It quickly becomes evident that while tax policy is of fundamental importance to energy companies, it is by no means the biggest factor in play.

Urgency and importance may diverge: while the environment is clearly the most important issue, keeping the lights on is politically the most urgent.

The UK's role in the world

Commitments to make progress towards a federal UK will also have a major impact on the development of taxation over the lifetime of the new Parliament. Before the 2016 Budget, the ground must be prepared for an 'English (and Welsh) income tax' on which Scottish MPs will have no vote. At the same time, while not seeking tax autonomy, the SNP plans to acquire greater control over national insurance payments, the ability to use R&D tax credits to encourage innovation, and business tax.

In the area of business taxes, the most influential policy driver is likely to be the commitment that the UK will maintain the most competitive business tax regime in the G20. That equates with the current low rate of corporation tax, which is set to continue at 20%. We can therefore expect to see the new government maximise corporation tax receipts by pressing ahead with the 'Google tax', as well as supporting the OECD BEPS initiative.

Business leaders, aware of the need for certainty when business plans outlast even a fixed term Parliament, are pressing for the new government to publish a business tax road map. Others favour bold tax incentives to make long term investments. Unless those incentives increase productivity, create jobs or boost growth, the Treasury is likely to concentrate on other priorities.

One such priority is the impact of the bank levy. If the Treasury had been testing the appetite of banks to remain in the UK in the face of levy increases, civil servants may feel that the time has now come to end the experiment. A number of foreign banks are threatening to remove from the UK those parts of their operations (such as repurchase agreements or 'repo') which expose them to the levy based on their UK balance sheets.

The public face

Conservative governments often have a strong track record in tackling tax avoidance. Returning to that theme, we can expect to see the controversial 'non-dom' regime tightened in a way which yields more tax and soothes public opinion, without driving away those who benefit from the arrangements.

For their part, the Liberal Democrat members of the coalition government had an important influence in tackling inequality and income discrepancy. The most visible step was lifting the personal allowance from £6,475 to £10,600. With a manifesto commitment to increase that to £12,500, let's hope that tax policy in the new Parliament continues to address the needs of low income groups.

Other aspects of tax policy under the last government were less desirable. The legal profession particularly is expressing concerns about the erosion of the rule of law, citing retrospective taxation, uncertainty over the application of the GAAR and restrictions on access to the courts. On the anniversary of the Magna Carta, the new government must listen to and address those concerns.

Although it may be difficult to discern a clear underlying tax policy, it is incumbent on the chancellor, equipped with all he has learned in his first term, to at least spell out a unifying theme in the first Budget of his second term. ■