Spring to mind

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Bill Dodwell reviews the highlights of the Spring Statement

The CIOT and its partners in the Better Budgets: Making Tax Policy report were delighted that Chancellor Philip Hammond stuck to his promise not to introduce new tax measures in his inaugural Spring Statement. There was even more delight when the Treasury produced its online list of open and closed tax consultations – another recommendation.

Tax specialists found a number of consultations – both from the autumn Budget and new areas. Let’s start with the topic of the moment: the taxation of the digital

economy. The Treasury released an update to the autumn Budget position paper, giving more detail on the rationale for a different approach to the normal idea of taxing activities based on physical presence. It states ‘the development of certain business models has challenged our understanding of how and where companies create value’. The preferred solution is reform of the international corporate tax framework to reflect the value of user participation and attribute taxable profits to user locations. The government supports the EU’s proposed interim solution of revenue-based taxes on digital advertising and value derived from platforms.

There are calls for evidence in several areas, to frame a future consultation. Perhaps the most interesting is the call for evidence on the VAT threshold, which follows the Office of Tax Simplification VAT report. ‘The current design of the VAT registration threshold may be dis-incentivising small businesses from growing their business and improving their productivity.’ The UK’s VAT threshold of £85,000 is the highest in the EU – and there is clear evidence that there are many businesses with sales just below the threshold. The challenge is that reducing the threshold would add a major cost to existing businesses, which they might find difficult to pass on to customers. There are two possible solutions. The first is to allow a business affected to keep part of the output tax it now needed to charge. The second could be to look at individual sectors and impose VAT without a threshold. An example from Australia of this approach is in relation to taxis – where there is no threshold. Cutting the registration threshold would also bring potentially millions more businesses into the Making Tax Digital for VAT record-keeping and filing system.

The government has also decided to tackle ‘the scourge of single-use plastic littering our streets, countryside and coastline’. The call for evidence asks how changes to the tax system or charges could be used to reduce the amount of single-use plastics by reducing unnecessary production, increasing reuse, and improving recycling. There must be an opportunity to use a combination of charges and grants – similar to the approach taken in landfill taxes.

One of the fundamental parts of the UK tax system is PAYE – the idea that a central employer should carry out the work of reporting and deducting tax from its employees. Online platforms are playing an increasing part in the UK economy and there’s a call for evidence on how platforms could take on a similar role to employers. Platforms could help those selling goods or providing services to manage their tax affairs by deducting tax and reporting details to HMRC. They could also play a role in helping individuals to save for retirement, or indeed generally. This could

become a positive role, as well as helping to reduce tax evasion. The call for evidence asks how this vision could become a reality.

There are then lots of consultations on measures announced at the autumn Budget. The first picks up on another part of the digital economy: VAT split payments. The aim is to utilise payments industry technology to collect VAT on online sales and transfer it directly to HMRC. It is hoped ‘this would significantly reduce the challenge of enforcing online seller compliance and offer a simplification for businesses.’ The intention is that one of the parties in the chain – either the issuing (customer’s) bank, a merchant acquirer, a payment service provider (PSP), a card scheme, or the merchant’s bank – should ‘strip’ the VAT from the customer’s payment and pass that VAT directly to HMRC. The balance of the money would pass to the platform and supplier, as currently. The consultation asks which party should collect the VAT, as well as the enabling details.

One of the long-term issues for the UK economy is how individuals will adapt to the development of new technology, such as artificial intelligence. Many individuals would benefit from additional training – and the autumn Budget promised tax relief for training financed in whole or part by employees or self-employed individuals. HMRC’s analysis suggests around 860,000 employees self-funded work-related training in 2016. The vast majority of these employees would not have been able to deduct the costs of this training for tax purposes under the existing rules. An estimated further 570,000 non-workers and students also self-funded work-related training in 2016. The aim is to extend the existing tax relief to those wanting to upskill or retrain, particularly those who want or need to change career, whilst preventing misuse on recreational activities, and is affordable.

Focusing on medium term changes to the UK tax system is exactly what the Spring Statement should do – we should welcome the calls for evidence and early