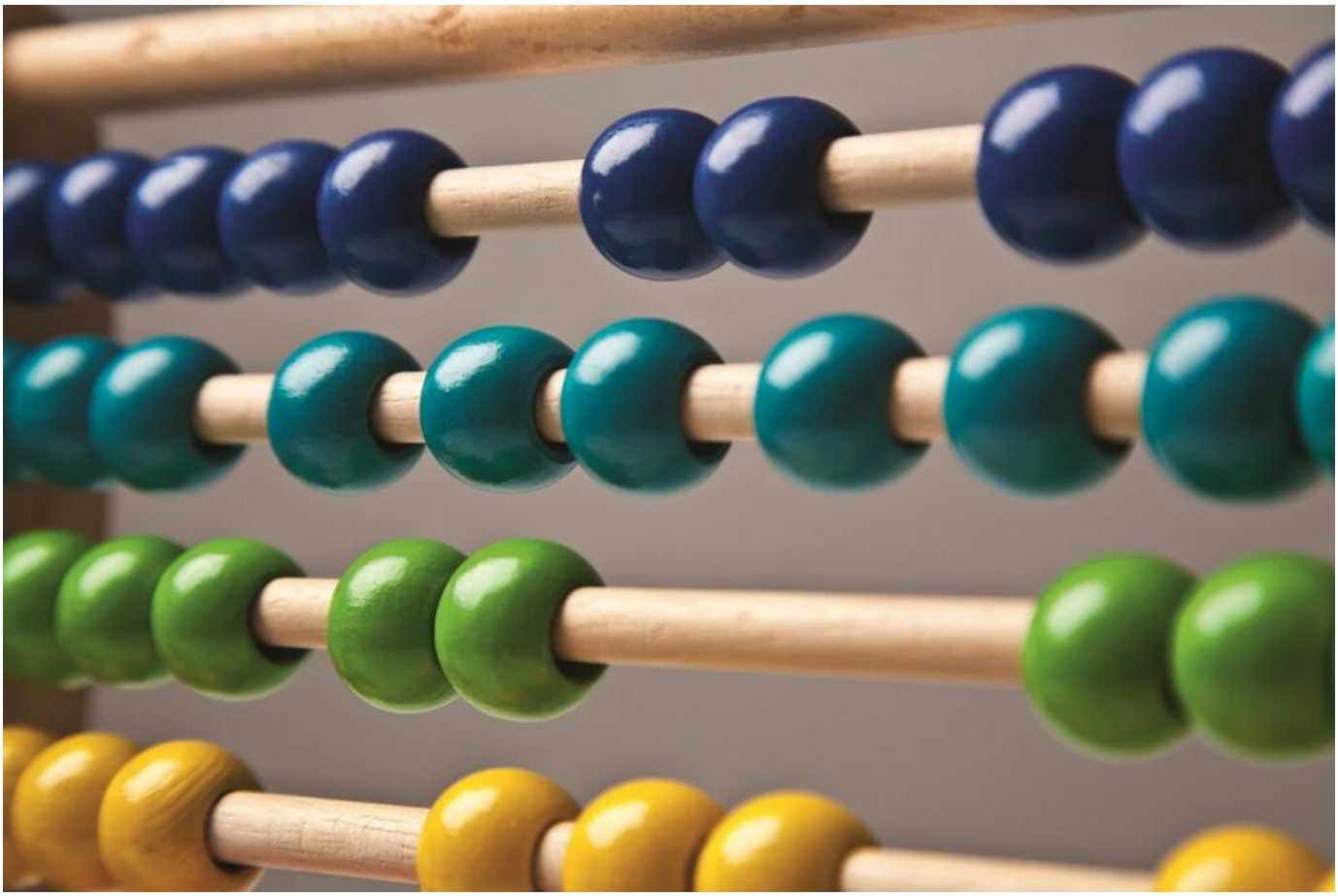
Counting reliefs

General Features | Management of taxes



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Bill Dodwell looks at recent work done about the usage and cost of tax reliefs

The very first project from the brand new Office of Tax Simplification looked at tax reliefs. The exam question set by then Chancellor George Osborne was to cut the volume of UK tax law by proposing the removal of outdated or unnecessary reliefs. In the end, forty-seven reliefs disappeared and scarcely anyone noticed.

What everyone did notice was the effort put in to counting the number of tax reliefs in UK legislation. The report said: 'During our voyage of discovery (which has lasted a mere five months rather than the five years of USS Enterprise) we found 1,042 reliefs, allowances and exemptions; far more than any of our initial estimates.' The

report quite reasonably noted that not all tax reliefs were the same type: some are there to encourage investment, for example, whilst others are simply part of the basic structure of a particular tax.

HMRC has published data for many years about tax reliefs but the upsurge in parliamentary interest generated by the Public Accounts Committee and the Treasury Select Committee has clearly prompted much greater investigation into this broad topic. In January 2019, HMRC published the latest bulletin, noting: 'We are currently reviewing the structure and scope of this publication. In future publications we intend to include a wider list of tax reliefs and associated costs. We also plan to review and improve the presentation of these statistics.'

HMRC costed the principal tax reliefs at some £430 billion, which compares to National Accounts Taxes of £737 billion (based on the Office of Budget Responsibility's Spring Statement analysis). Minor reliefs (those costing less than £50 million each) cost a further £690 million. Structural reliefs – things which are a fundamental part of a tax–totalled £196 billion. Reliefs with both structural and expenditure components totalled £87 billion. Expenditure reliefs cost £147 billion.

The novelty for the January 2019 edition is that we now have some idea how many taxpayers benefit from the principal reliefs. The most costly – by far – is the personal allowance, which now costs £107 billion – compared to total income tax receipts of £195 billion. The data shows that 47 million individuals benefited from it and over 16 million individuals paid no income tax as a result. Even this is an under-estimate as HMRC note that they don't have complete records on everyone with income below the personal allowance. 31 million people benefitted from the awkwardly-named primary threshold (the NIC personal allowance) at a cost of £26.4 billion.

22 million people benefit from the ISA exemption (which now costs £3.5 billion), with 18 million people receiving the personal savings allowance, worth up to £200 pa at an exchequer cost of £455 million. 5 million individuals use the dividend allowance, no doubt including many pensioners and owner-managers of companies. Slightly oddly, perhaps, the ISA relief is treated as an expenditure, whilst the personal savings and dividend allowances, which have similar effects for millions, are treated as structural i.e. simply part of the income tax framework.

HMRC give a projected cost of the main residence exemption for capital gains tax of some £27 billion – but they don't have data on the number of beneficiaries. There

are about 25 million homes in the UK and other data suggests that about 65% are owner-occupied – so perhaps that gives us some idea of the millions of possible beneficiaries. HMRC insert an important cautionary note ‘The estimated cost of this exemption from capital gains tax does not represent the yield if this exemption were to be abolished, as consequential behavioural effects would substantially reduce yield.’ Strangely, the £12,000 exemption from capital gains tax doesn’t have a costing against it.

Pensions are a big money item. HMRC think that pensions tax relief and the exemption for the income of pension funds costs about £25.6 billion. The exemption from employer’s NIC for pension contributions costs a further £18 billion, which includes additional employer contributions funded by employee salary sacrifice. 2.6 million self-employed people save £5.2 billion from their lower national insurance contributions, even though they now receive the same state pension as employees. These are all classified as tax expenditures but have of course been part of the tax and NIC landscape for decades.

A mere 41,000 individuals manage to benefit from entrepreneurs’ relief, although the cost of this is £2.4 billion in 2016-17 – some £58,500 each, on average.

Enterprise investment schemes reliefs are worth over £700 million in reduced income tax for 44,000 people and a further £120 million in CGT savings. The reliefs presumably support investment of some £2.4 billion in qualifying companies – but no doubt it is almost impossible to show how such investment might change were the tax reliefs to be withdrawn.

Corporations tax reliefs for R&D, patent box and the creative scheme reliefs cost some £5 billion annually, compared to corporation tax of £58 billion. 40,000 companies get R&D relief but only 1,200 have managed to add on the Patent Box relief as well.

No doubt the debate will continue whether all these reliefs are effective – even though it’s surely clear that the vast majority are here to stay. Having a much better idea how many taxpayers are affected is a useful contribution to the debate.