Vice President’s page

Welcomes

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Raising taxes?

Many of us are now returning to work after months of working from home but I am unsure if working in offices will ever be the same again. Most organisations that I speak to are looking to downsize and, in accordance with the wishes of their staff, introduce new flexible working arrangements. These new arrangements will potentially revolutionise the working week, and from what I have seen possibly assist in addressing the long running UK productivity gap. It also may help to significantly address some of the issues of climate change – and I would not bet against it also providing longer term benefits to our health.

There has been much noise from the government about Covid-19 debt, and the recent introduction of increased National Insurance. Additionally, as we move into the next phase of life after Covid, government fiscal policy needs to take account of some of the quite significant changes from so many people working from home.

I think most of us recognise that something is going to have to happen to pay for Covid-19, and that will most likely involve increases in taxation. We have already seen a few proposed changes: increases to corporation tax from 19% to 25% in 2023; and the recent Health and Social Care levy of 1.25%. I think this is a great opportunity to undertake a wider review of the tax system and to ensure it is fit for a post-Covid world and addresses the significant challenges of protecting the planet.

Here are some suggestions of how we can create a more dynamic tax system and economy.

Property taxes: My starting point is the taxation of property, particularly our homes. The main protection from capital gains tax (CGT) is the private residence relief (PRR) (TCGA 1992 s 222), which can in many cases exempt the property from CGT altogether. There have been a few changes to PRR in recent times, mainly to

reduce the period available for disposing of the property and still securing PRR.

But many of us left the confines of our offices, armed with our laptops, to work from home. As many tax commentators have pointed out, in the event of a sale PRR will potentially not be available, because of the restrictions within the rules that any part of a dwelling used exclusively for a trade, business or a profession will not qualify. In my opinion, PRR rules need to change to take account of the many new working arrangements being put in place. The increasing digitalisation of the economy will also benefit from looking further at this.

Employment taxes: The UK tax rules for deductions against earnings are often very much focused on the workplace, or temporary workplace, and where the costs are incurred wholly, exclusively and necessarily for the purposes of the employment.

HMRC provided some guidance that those who must work from home may be able to claim additional expenditure costs. But they also stated those costs were not available for relief where the individual ‘chooses‘ to work from home. Surely this part of the tax system also needs modernisation?

In terms of climate change, in my view home working provides a significant opportunity to address climate change challenges. But that is only effective if our homes are very energy efficient. There is a huge opportunity for the government and its ‘build back better’ policies to introduce various capital expenditure initiatives to help with home fuel efficiency. Yes, there will be upfront capital costs for this, but this could also create significant additional jobs, with all the taxes that would raise.

Digital economy: As stated above, I think home working is here for good. But other challenges are also taking hold, as the economy becomes ever more digital. As someone working in a law firm, with significant market experience of Technology, Media and Entertainment (TME), I am seeing this first-hand. From transactional work of those tech start-ups to companies making good use of the various government Creative Credits regimes to the development business opportunities operating around smart contracts and digital coins, the world is at an interesting crossroads. Crypto assets are part of that story, with many tax advisers currently assisting clients with undeclared gains and income, but this is only a small part of the tax story around crypto. In the years to come, I expect to see central banks introducing their own currencies, and possibly a wholly new crypto market and environment. We

are already seeing significant movement into digital financial services and I expect this only to grow, and impact upon us all. For those of us with financial services tax experience, it will be interesting to see how fintech and other initiatives start to reach into the more traditional economy.

I end this article in optimistic mood. To different degrees we have all been affected by Covid-19, whether losing a loved one, or having significant effects to our work. But with vaccines in place, I feel we are entering a different phase. Walking around London has a positive feel and hopefully from some of the points mentioned above, the next few years will be interesting, as the country comes back to life, with the accelerated help of the digital economy.

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