Spring Statement: ATT, CIOT and LITRG initial reactions

General Features

22 April 2022

ATT, CIOT and LITRG press releases gave their initial reactions to the announcements on tax by the Chancellor in his Spring Statement on 23 March 2022 and to the Tax Plan that sets out the government's future direction of travel in relation to tax policy.

As part of the Spring Statement, the government set out its 'Tax Plan', providing some detail on the government's aims, with the intention of providing clarity on the direction of travel for future tax policy, helping to bring stability and certainty to stakeholders. In some areas, this document sets out firm policies that the government intends to take forward; in others it sets out a spectrum of options for further consideration, saying that additional announcements will be made in future Budgets. The Tax Plan sets out three key priorities:

- helping families with the cost of living;
- creating the conditions for private sector led growth; and
- sharing the proceeds of growth with working people.

In various press releases, which can be found on our websites, the ATT, CIOT and LITRG made some initial comments on the Tax Plan.

Helping families with the cost of living, and sharing the proceeds of growth with working people

Two of the Chancellor's headline announcements in the Spring Statement were about income tax and national insurance, and were key proposals around delivering the first and third of the priorities identified by the Chancellor.

The Chancellor announced that the threshold for paying both Class 2 and Class 4 National Insurance contributions (NIC) will be aligned with the threshold for paying income tax, and that self-employed individuals earning above the small profits threshold will get National Insurance credits even if they do not earn enough to pay income tax or NIC. The Chancellor also announced a future reduction in the basic rate of income tax.

Whilst these announcements were broadly welcomed by the ATT, CIOT and LITRG, we also had some concerns.

LITRG highlighted that, while this was good news for the self-employed, sole traders will need to declare their profits on a self-assessment tax return to benefit from these credits.

The CIOT commented that the alignment of the income tax and NIC thresholds may lead to further income tax divergence between Scotland and the rest of the UK, as would the lowering of the UK basic rate of income tax to 19p from 2024.

The Tax Plan states that ‘tax reliefs and allowances play a vital role in ensuring that the tax system works effectively and that it encourages positive economic and social outcomes’, but goes on to note that there are over a thousand tax reliefs and allowances, causing complexity, unfairness and inconsistency. The government intends to reform tax reliefs and allowances ‘to better support a fair, efficient, simple, and sustainable tax system’.

Creating the conditions for private sector led growth

This priority identified in the Tax Plan says that ‘the government considers that a new culture of enterprise is essential to drive growth through higher productivity’. The Spring Statement also says: ‘The government wants to create the conditions for the private sector to invest more, train more and innovate more. This includes cutting and reforming taxes to support these aims.’ Three areas are then discussed in more detail as to how this might be achieved.

1. Capital

The CIOT and ATT welcomed the announcement by the Chancellor that the government is considering how to best support future business investment, once the super-deduction ends in 2023.

The CIOT said that whatever regime the government puts in place, it should be there for the long term to enable businesses to plan effectively. Business investments often take place over decades. Businesses need consistent levels of relief to help them plan. We need to move away from temporary levels of annual investment allowance to a permanent high level, and away from short term measures like the current super-deduction to a stable investment regime. Constant changes to the rules undermine investor understanding of, and confidence in, what is on offer at any one time.

ATT commented that the proposed engagement of the government with businesses and other stakeholders has the potential to create a stable system of capital allowances which encourages investment, meets the varying needs of different types and size of businesses, and is easier to understand. That objective is only achievable if the discussion involves a wide range of stakeholders and the discussion itself is wide-ranging.

The ATT also said that the current capital allowances system is confusing, with too much depending on the precise timing of expenditure, fine statutory distinctions between similar types of assets and the nature and structure of a particular business.

2. People

In highlighting ‘people’ as one of his priorities, the Chancellor set a goal to encourage businesses to offer more high-quality employee training. The Tax Plan says that the government has concerns over whether the current tax system is doing enough to encourage businesses to invest in training because UK employers spend just half the European average on training for their employees. The Spring Statement signalled an intention to improve training opportunities for employees. In response to this, the ATT called for a level-playing field for both employees and the self-employed when it comes to tax relief on new skills, as the self-employed currently cannot access the same tax benefits.

3. Ideas

The Tax Plan reiterates the government’s commitment to increasing spend on research and development (R&D) by the private sector as a percentage of GDP. The CIOT welcomed the changes confirmed in the Spring Statement around including

data and cloud computing costs, and a focus on R&D activities in the UK and the increased flexibility and scope of those changes, commenting that this showed that the government has listened to what business has said.

ATT suggested that there should be a cautious approach to the further review of R&D tax reliefs to ensure smaller companies are not disadvantaged. The Tax Plan said that the government would consider increasing the generosity of the 'RDEC' scheme which provides relief to larger companies, while also considering what more can be done to tackle abuse of the separate R&D tax relief scheme which provides relief to small and medium sized companies (the 'SME scheme'). The ATT said that it shares the government's concerns over abuse of the R&D relief schemes, and strongly supports efforts to crack down on such behaviour. However, it also said that care needs to be taken that these efforts do not prevent genuine claimants from accessing the relief to which they are entitled.

Other measures

In the Spring Statement, the government committed to use the tax system to encourage investment in green technologies. Both the CIOT and the ATT welcomed this, but called on ministers to commit to a long-term tax strategy for green investment.

The CIOT and ATT said that these measures in the Spring Statement (in relation to the VAT rate on energy-saving materials and green reliefs from non-domestic (business) rates) will give taxpayers and businesses some incentive to continue to invest in green energy technologies at a time when cost of living pressures are taking priority over the need to reduce carbon emissions. However, the VAT reliefs are temporary, and there remains uncertainty over the government's long-term approach to using the tax system to encourage green investment.

We will focus on the areas where further input is sought over the coming weeks with a view to making written representations. Please send any comments or thoughts on any of these to technical@ciot.org.uk, technical@att.org.uk or technical@litrg.org.uk.

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