HM Treasury

Business tax road map

March 2016

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Foreword

When the government came to power in 2010 it was faced with the aftermath of the financial crisis. Unemployment had risen, many businesses had gone bankrupt and £1 in every £4 spent by the government was borrowed. The government's plan was to fix the public finances and back business to stimulate a private sector-led recovery, at the forefront of which was making the UK a more attractive place to invest and grow a business. Bold action by the government has helped create one million more businesses and helped two million more people find work, all the while bringing the deficit down.

Crucial to these successes have been reforms to make our tax system more efficient and competitive, reforms which began with the 'Corporate tax road map' published in 2010. This new road map goes further, by setting out plans for major business taxes to 2020 and beyond. It draws together the results of several major areas that we have reviewed, including the taxation of multinationals, the future of business rates, and the way we tax business energy use. And it outlines measures to support businesses, particularly small businesses, in the years to come.

We hold true to the principles we set out in 2010. Taxes should be low, but must be paid. There should be a level playing field, including between large businesses and small, and between different corporate structures. The system must encourage entrepreneurship and not reward aggressive tax planning. Wherever possible, we will take opportunities to simplify the tax code, and make the administration of tax fit for modern business practices.

This road map sets out how we will deliver on our plan to back businesses. By publishing it today we give the UK's great businesses the certainty they need to continue driving Britain's economic recovery.

David Gauke MP

Financial Secretary to the Treasury

Executive summary

The 'Business tax road map' sets out the government's plans for business taxes to 2020 and beyond. It aims to give businesses the certainty they need to plan and make the long-term investments that are vital for growth and for boosting the UK's productivity.

The public finances continue to set the context for tax policy. The government has made significant progress since 2010, reducing the deficit from 10.3% of GDP in 2009-10 to 3.8% in 2015-16. However, more needs to be done. The deficit remains among the highest of advanced economies and our debt as a share of GDP is too high. Running a surplus and reducing debt will ensure that the economy is better able to withstand future economic shocks.

In a low-inflation environment and taking account of periodic economic shocks, the only reliable way to achieve a sustained reduction in debt is to run a surplus. The government's fiscal rules target a surplus in 2019-20, and to run surpluses in normal economic times thereafter. Business groups support the government's deficit reduction plans, recognising that economic security provides the stable economic conditions for business to flourish.

Given the continuing importance of reducing the national deficit, the government has had to make difficult trade-offs. A particular focus of support for the years ahead will be small and medium sized businesses, who are the backbone of the British economy. They employ 15.6 million people (60% of total UK private sector employment) and have a combined annual turnover of £1.8 trillion (47% of turnover in the private sector). Research by the Federation of Small Businesses shows that 9 out of 10 unemployed people who find jobs in the private sector do so through a start-up or small business. So it is vital to the UK economy that small and medium sized businesses get the support they need.

The road map brings to a conclusion several key areas of tax policy that have been under review. In particular it sets out a number of actions in response to:

- the business rates review which has considered how to ensure the business rates system remains fit for purpose in the twenty-first century
- the business energy efficiency tax review, which was announced at Summer Budget 2015 following concerns from business that the existing system is complicated, inefficient and unduly burdensome
- the outputs of the G20-Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) work. In recent months there has been widespread reporting on the tax position of some large multinational enterprises and concern about the levels of tax they pay. This road map sets out what the government has done and is continuing to do to ensure multinationals pay a fair amount of tax in future

By acting on these areas, alongside making important changes elsewhere, the government will deliver a significant package of tax reforms over this Parliament. The government will:

1. Continue to reduce tax rates to drive growth, including supporting small business, by:
    - reducing the business rates burden by £6.7 billion, ensuring the smallest businesses pay no rates at all, and modernising business rates so they are fit for the twenty-first century

- cutting corporation tax to 17% in 2020, supporting investment and ensuring the UK has by far the lowest rate in the G20
- introducing a major package to support investment in the North Sea, including taking Petroleum Revenue Tax to 0% and halving the Supplementary Charge
- reducing Capital Gains Tax for most assets and extending entrepreneurs' relief, to provide a further incentive for investment into companies, helping them to access the finance they need to expand and create jobs
- abolishing Class 2 National Insurance contributions (NICs), which will reduce the NICs paid by self-employed individuals by an average of £134 a year and will end an outdated and complex feature of the NICs system

2 Build on progress from the last Parliament to tackle avoidance and aggressive tax planning and ensure a level playing field by:

- Limiting the level of deductions for interest expense that can be offset against profits to 30% of a group's earnings; targeting the measure by introducing a group ratio rule, an exemption for public benefit infrastructure and a £2 million de minimis threshold
- Eliminating the tax advantage arising from multinationals' use of hybrid mismatch arrangements involving permanent establishments
- Extending the UK's withholding tax rights over royalties
- Ensuring non-resident property developers pay tax in the UK on profits they make in this country

3 Simplify and modernise the tax regime by:

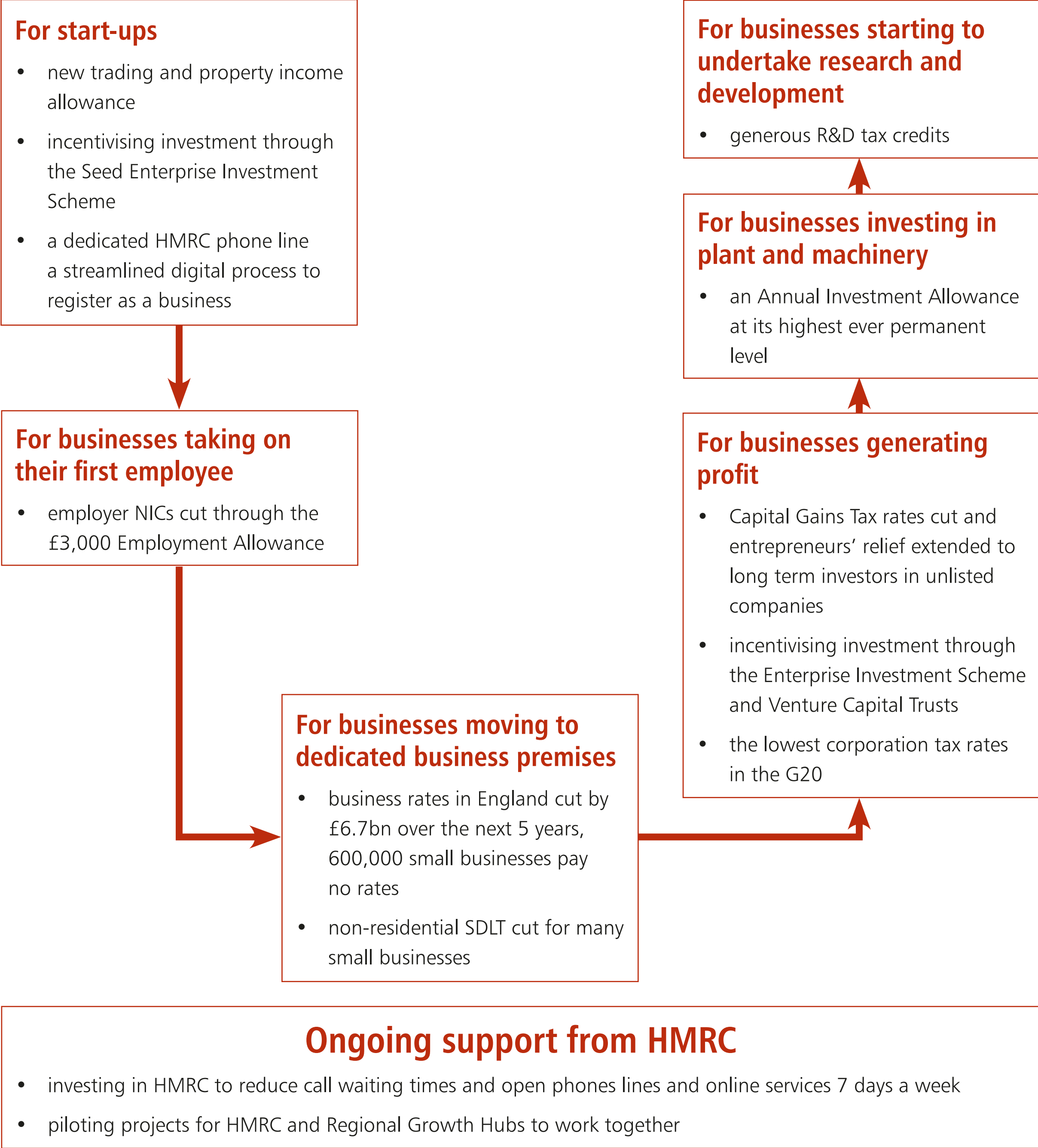
- Simplifying the business energy tax regime: abolishing the CRC energy efficiency scheme, and offsetting the costs through an increase in the Climate Change Levy
- Modernising the corporation tax rules on losses, making the system more flexible for business, while ensuring that companies pay tax when they make profits in excess of £5 million
- Reforming Stamp Duty Land Tax on non-residential property transactions to reduce distortions, cutting the tax for many businesses purchasing property
- Allowing businesses, the self-employed and landlords to adopt pay-as-you-go tax payments, enabling them to choose payment patterns that suit them and better manage their cash flow
- Improving HMRC's customer service including introducing a dedicated phone service for businesses filing and paying their taxes for the first time, offering a 7-day a week service on tax credit phone lines and new investment to cut call waiting times

Together, the plans will address the challenges of the twenty-first century economy: how to ensure tax works in a global economy of internationally mobile firms and capital; how to maximise the opportunities of new technologies to streamline processes and reduce burdens; above all how to provide the support for businesses to grow and succeed at all stages of their lifecycle (Figure 1.A).

The road map is structured as follows:

- Chapter 1 restates the principles that have guided the government's reforms and summarises the progress made since 2010
- Chapter 2 explains the approach the government intends to take over the period to 2020 and beyond, including details of new measures
- Chapter 3 provides a timetable for the remainder of this Parliament

Figure 1.A: How the government is using the tax system to support businesses as they grow



1 Principles for reform and progress since 2010

1.1 In 2010 the government published the 'Corporate tax road map', which stated the government's ambition to make the UK's corporation tax regime the most competitive in the G20. Underpinning the new approach were five principles which have provided a clear and consistent direction for reform. They were:

- Lowering rates while maintaining the tax base
- Maintaining stability
- Maintaining a level playing field for taxpayers
- Being aligned with modern business practice
- Avoiding complexity

1.2 Though these principles were initially developed for reform of corporation tax, they have also guided reforms initiated in other areas of business taxation. This chapter summarises the progress made to date.

1.3 The government also set out a new approach to tax-policy making in December 2010. Significant progress has been made over the last Parliament in implementing these commitments - for example, draft Finance Bill clauses have been published for consultation alongside tax information and impact notes every autumn since 2011, and there have been many examples of detailed consultation on major tax reforms. **So the government will continue to follow this approach in the current Parliament.**

Achieving lower and more stable rates

1.4 There is a broad consensus among economists that high rates of corporation tax undermine investment and economic growth. As the OECD have said: "corporate income taxes are the most harmful for growth as they discourage the activities of firms that are most important for growth: investment in capital and productivity improvements."[1]

1.5 That is why, to support business investment, the government has delivered major cuts to corporation tax since 2010. In the previous Parliament the main rate of **corporation tax was cut from 28% to 20%**, and the small profits rate was also cut to 20%. In April 2015 the two rates were unified, creating a single headline rate of corporation tax for the first time since 1972. This was a major simplification of the tax system, advocated by the Office for Tax Simplification. In 2016-17 the corporation tax cuts delivered so far will be worth £10 billion a year to business.

1.6 To further support investment during the economic recovery, the government made two **increases in the Annual Investment Allowance (AIA)**. It has since set the AIA at a stable level of £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016. The government has committed to maintaining the AIA at this, its highest ever permanent level, for the rest of this Parliament.

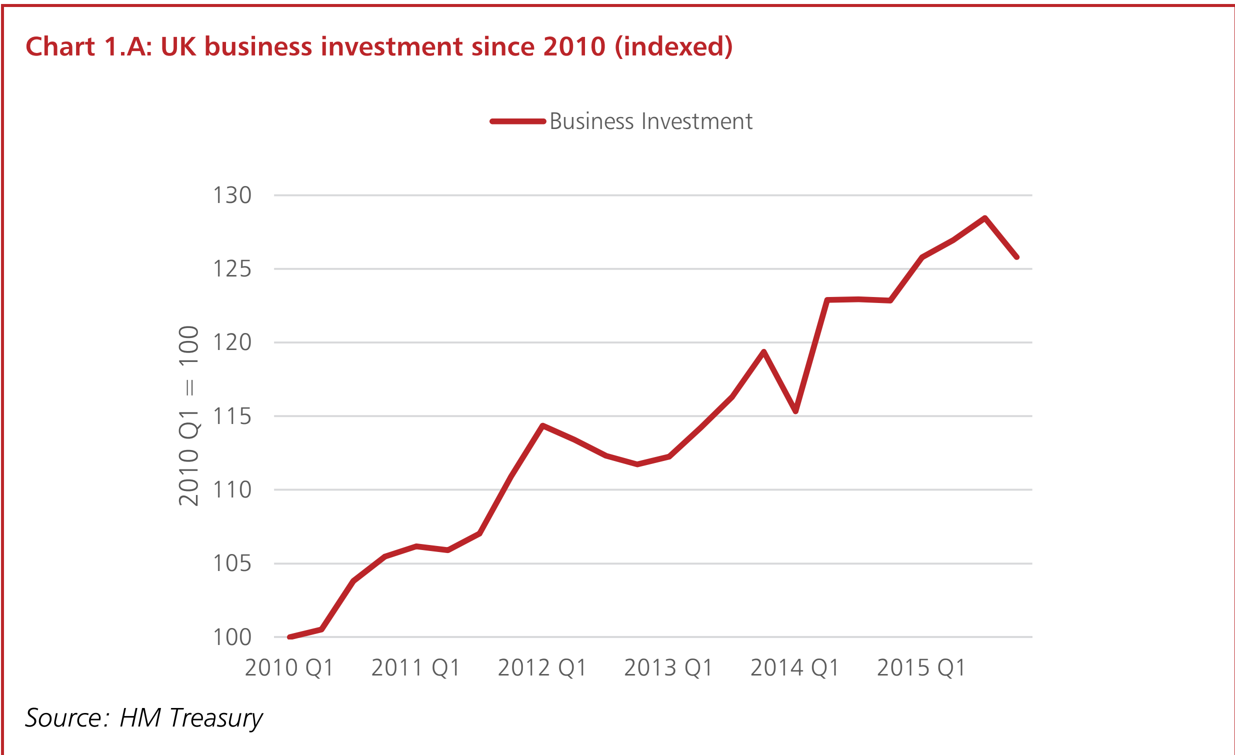
[1] http://www.oecd-ilibrary.org/taxation/tax-policy-reform-and-economic-growth_9789264091085-en

1.7 In addition, the government has introduced a range of reforms to support innovation and entrepreneurship through well-targeted tax reliefs. These include the Patent Box, which offers a reduced 10% rate of tax on profits derived from patents, increases in the generosity of R&D tax credits for SMEs and a new scheme for large companies which is payable to loss makers for the first time, new creative sector tax reliefs, reforms to the Enterprise Investment Scheme and Venture Capital Trusts and the creation of the Seed Enterprise Investment Scheme.

1.8 To support employment, the government introduced the Employment Allowance, offering £2,000 off employers' National Insurance contributions (NICs) bill from April 2014. This will increase to £3,000 in April 2016. Over 1 million employers have benefited from this measure. Over the last two years the number of small businesses employing someone other than the owner has grown by 100,000.

1.9 These reforms have been central to the UK's economic recovery. The UK has been one of the fastest growing economies in the G7 and the OECD forecasts the UK to be the fastest growing G7 economy in 2016. There are 2.3 million more people in employment since 2010 and Chart 1.A shows that business investment is now 26% higher than it was in Q1 2010.

Chart 1.A: UK business investment since 2010 (indexed)



Source: HM Treasury

1.10 The reforms have made the UK more attractive to inward investment. In 2014-15 the UK attracted a record number of inward investment projects, creating almost 85,000 new jobs (Table 1.A).

Table 1.A: Foreign direct investment (FDI) projects into the UK and associated employment

	FDI Projects into the UK	Associated new jobs created
2010-11	1,434	41,936
2011-12	1,406	52,741
2012-13	1,559	59,153
2013-14	1,773	66,390
2014-15	1,988	84,603

Source: UKTI

1.11 Ensuring Britain's workforce is highly skilled and has access to high quality vocational training is a core part of the growth plan to boost productivity. At Autumn Statement 2015, the government announced the introduction of a new **apprenticeships levy**, to apply to larger employers from April 2017, set at a rate of 0.5% of an employer's paybill. An allowance of £15,000 will ensure that the levy will only be paid on any paybill in excess of £3 million. Less than 2% of UK employers will pay it, but it will raise £3 billion by 2019-20 to contribute towards a doubling of spending on apprenticeships since 2010 in cash terms. The levy will put control of apprenticeship funding in the hands of employers, encouraging them to invest in their apprentices and recruit and train more people.

Levelling the playing field and maintaining the tax base

1.12 The government is committed to low business taxes – but these taxes must be paid. There cannot be an uneven system in which some businesses pay the tax due while competitors can avoid tax. That means clamping down on the artificial structures used to gain a tax advantage. Tackling evasion, avoidance, and aggressive tax planning also maintains the tax base.

1.13 Over the last Parliament the government made a considerable investment in HMRC's compliance activities and took significant action to clamp down on tax avoidance. Some of the more significant measures in revenue terms are listed in Table 1.B. As a result of these and other actions, by the end of 2014-15 HMRC had secured over £100 billion more from their compliance activities than in 2010.

Table 1.B: Selected anti-avoidance measures since 2010

Action	When announced	Expected additional Exchequer revenue by 2020
Disguised remuneration. Stopped businesses paying employees using trusts in order to avoid employment taxes and NICs. Further action has been taken at Budget 2016.	Budget 2011, extended Budget 2016	Budget 2011 changes £3.8bn Budget 2016 changes £2.5bn
Corporate loss buying. Blocked a practice by which companies could wipe out their tax bills by accessing losses made in a different corporate group	Budget 2013	£1.2bn
Partnerships review. Stopped hedge fund managers in partnerships obtaining unfair tax advantages by allocating profits to companies they controlled.	Budget 2014	£1.9bn
Offshore intermediaries. Stopped the use of offshore employment intermediaries to avoid employer NICS and the use of onshore employment intermediaries to facilitate false self-employment	Budget 2014	£2.5bn
Diverted Profits Tax. Targeted contrived arrangements used to divert profits away from the UK	Autumn Statement 2014	£1.4bn

Source: HM Treasury

1.14 However, in the twenty-first century economy of globally-mobile firms and capital, domestic policy has to be backed up by action at an international level. Much of the opportunity for multinational avoidance has arisen because of the changing nature of the global economy. The rules used to determine profit allocation stem from a set of principles that were put in place in the 1920s. Since then, firms' activities have changed. They have become more global: around 60% of trade is in intermediate goods and much of this occurs within companies across country

borders. The rise of multinational enterprises has created new challenges for tax authorities, in the UK and worldwide.

1.15 The government successfully helped initiate the G20-OECD BEPS project, and worked with G20 and OECD partners to bring this to a successful conclusion in October 2015. The BEPS project represents a major effort to reform the international tax system (Box 1.A).

Box 1.A: OECD work to tackle Base Erosion and Profit Shifting (BEPS)

The primary objective of the BEPS project was to achieve better alignment of the taxation of profits with the economic activity that generates them. The BEPS project covered a wide range of international tax issues. These included looking at:

- the rules underpinning the basic allocation of taxing rights between countries where multinationals are operating across borders
- the protection of those taxing rights from transactions designed to reduce a country's tax base
- new ways to identify aggressive avoidance strategies such as better transparency
- how to evolve international tax rules in the context of changing business models, such as the rise of the digital economy

The final BEPS outputs were published in October 2015. Chapter 2 sets out how the government is responding.

1.16 The UK's objective has been to ensure that profits are taxed where the economic activity generating them takes place. In 2014, the UK was one of the first countries to implement the OECD country-by-country reporting template, which will improve transparency of business to tax authorities. The government is introducing new rules to address hybrid mismatches, which are business structures or financial transactions used by some multinationals to avoid tax by exploiting differences between countries' tax rules.

1.17 The government has also introduced a diverted profits tax to better target the contrived arrangements used by multinationals to artificially shift profits to low or no-tax locations where there is little or no economic activity. This came into effect from 1 April 2015 and evidence is already emerging of large businesses changing their behaviour as a result and paying tax more in line with their economic activities in the UK.

1.18 In addition, it has been vital to ensure that HMRC has had the resources to challenge abusive practices by multinational groups. In 2012, the government invested an additional £29 million in HMRC for this purpose. HMRC has used some of this funding to expand its specialist transfer pricing team by almost a quarter, which it expects to generate an additional £500 million over the four years to March 2018.

Avoiding complexity and aligning with modern business practice

1.19 It is vital that the tax system is simple to understand and easy to comply with. In 2010 the government established the Office of Tax Simplification (OTS) to identify areas where complexities in the tax system for both businesses and individual taxpayers can be reduced. The OTS has made over 400 recommendations since 2010. Nearly half of these have already been implemented by the government and others are under review.

1.20 Supported by the OTS, the government made a range of simplifications to the tax system over the last Parliament, including:

- making improvements to tax administration, cutting the annual cost to businesses by £250 million per annum
- introducing a simple cash basis for tax, which was taken up by 1 million small businesses in its first year alone
- unifying the main rate and small profits rate of corporation tax from April 2015
- announcing plans to introduce digital tax accounts, ending the need for annual tax returns

1.21 The government also modernised the Controlled Foreign Companies rules, which are anti-avoidance provisions designed to prevent diversion of UK profits to low tax territories. The new rules, introduced in Finance Act 2012, which now have a territorial basis, better reflect the way that businesses operate in a global economy whilst maintaining adequate protection against artificial diversion of UK profits.

2 Business tax reform to 2020 and beyond

2.1 Good progress has been made in key areas since 2010 but there remains more to do. Given the continuing importance for business and the whole country of reducing the deficit, the government has had to continue to make difficult trade-offs and prioritise accordingly. Looking ahead, the government will:

- continue to reduce tax rates to drive growth including supporting small business
- build on progress from the last Parliament to tackle avoidance and aggressive tax planning and ensure a level playing field
- simplify and modernise the tax regime

2.2 The rest of this chapter explains the approach the government intends to take under each.

Reducing tax rates to drive growth including supporting small business

2.3 Central to the government's vision remains a desire to see lower tax rates, supporting productivity by providing incentives for long-term investment and innovation. In particular the government is committed to supporting small businesses.

Business rates

2.4 The government has concluded the business rates review and has decided to **cut the burden on ratepayers in England by £6.7 billion over the next five years**, cutting business rates for all ratepayers and **ensuring that the smallest businesses pay no rates at all**, whilst modernising the tax to make it fit for the twenty-first century.

2.5 The government recognises that business rates represent a higher fixed cost for small businesses and this Budget **cuts business rates from next year for half of all properties - 900,000 smaller properties -** starting 1 April 2017. The government will:

- **Permanently double Small Business Rate Relief (SBRR) from 50% to 100% and increase the thresholds to benefit a greater number of businesses.** Businesses with a property with a rateable value of £12,000 and below will receive 100% relief. Businesses **with a property with a rateable value between £12,000 and £15,000 will receive tapered relief**. 600,000 small businesses, occupiers of a third of all properties, will pay no business rates at all - a saving worth up to £5,900 in 2017-18. An additional 50,000 will benefit from tapered relief
- **Increase the threshold for the standard business rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate**. This will reduce business rates for many small businesses – including some high street shops

2.6 **From April 2020, taxes for all rate paying businesses will be cut through a switch in the annual indexation of business rates from RPI to be consistent with the main measure of inflation, currently CPI,** in line with the government's previous commitment to consider moving the indexation of indirect taxes from RPI once fiscal consolidation is complete. This represents a business rates cut every year from 2020. In 2020-21 alone it is worth £370 million to businesses

and the benefit will grow significantly thereafter. Table 2.A provides some examples of the impact on different businesses of these changes.

2.7 **The government will also modernise the administration of business rates** to revalue properties more frequently and make it easier for businesses to pay the taxes that are due:

- the government will aim to introduce more frequent business rate revaluations at least three yearly and will publish a discussion paper in March 2016 outlining options on how to achieve this to support both businesses and the stability of local authority funding
- the government will transform business rates billing and collection. By 2022, local authority business rate systems will be linked to HMRC digital tax accounts so that businesses can manage their rates bills in one place alongside other taxes. As a first step, the government will work with local authorities across England to standardise business rate bills and ensure ratepayers have the option to receive and pay bills online by April 2017
- once local authority and HMRC systems are linked the government will consider the feasibility of replacing SBRR with a business rates allowance for small businesses. This would be applied to a business's total property portfolio across local authority areas allowing businesses that grow and acquire more property to benefit from relief

2.8 These measures build on the devolution revolution confirmed at the Autumn Statement 2015 which will allow local government to keep the rates they collect from business, give councils the power to cut business rates to boost growth, and give elected city-wide mayors the power to levy a business rates premium for local infrastructure projects – with the support of local business. Local government will be compensated for the loss of income as a result of the business rates measures above, and the impact considered as part of the government's consultation on the implementation of 100% business rate retention in summer 2016.

Table 2.A: Impact of Budget 2016 business rates measures

Property rateable value (£)	Type of premises	Ratepayer's bill in 2017-18 after Budget 2016 measures applied (£)	Total value of Budget 2016 support in 2017-18 (£)	Total value of Budget 2016 support over the period 2017-21 (£)
6,000	Guest house	0	1,476	6,162
12,000	Small shop	0	5,904	24,648
14,000	Hairdresser	4,592	2,296	9,641
30,000	Pub	14,760	390	1,740
50,000	High street shop	24,600	650	2,900
1,000,000	Department store	505,000	0	6,000

Source: HMT calculations based on DCLG and VOA data

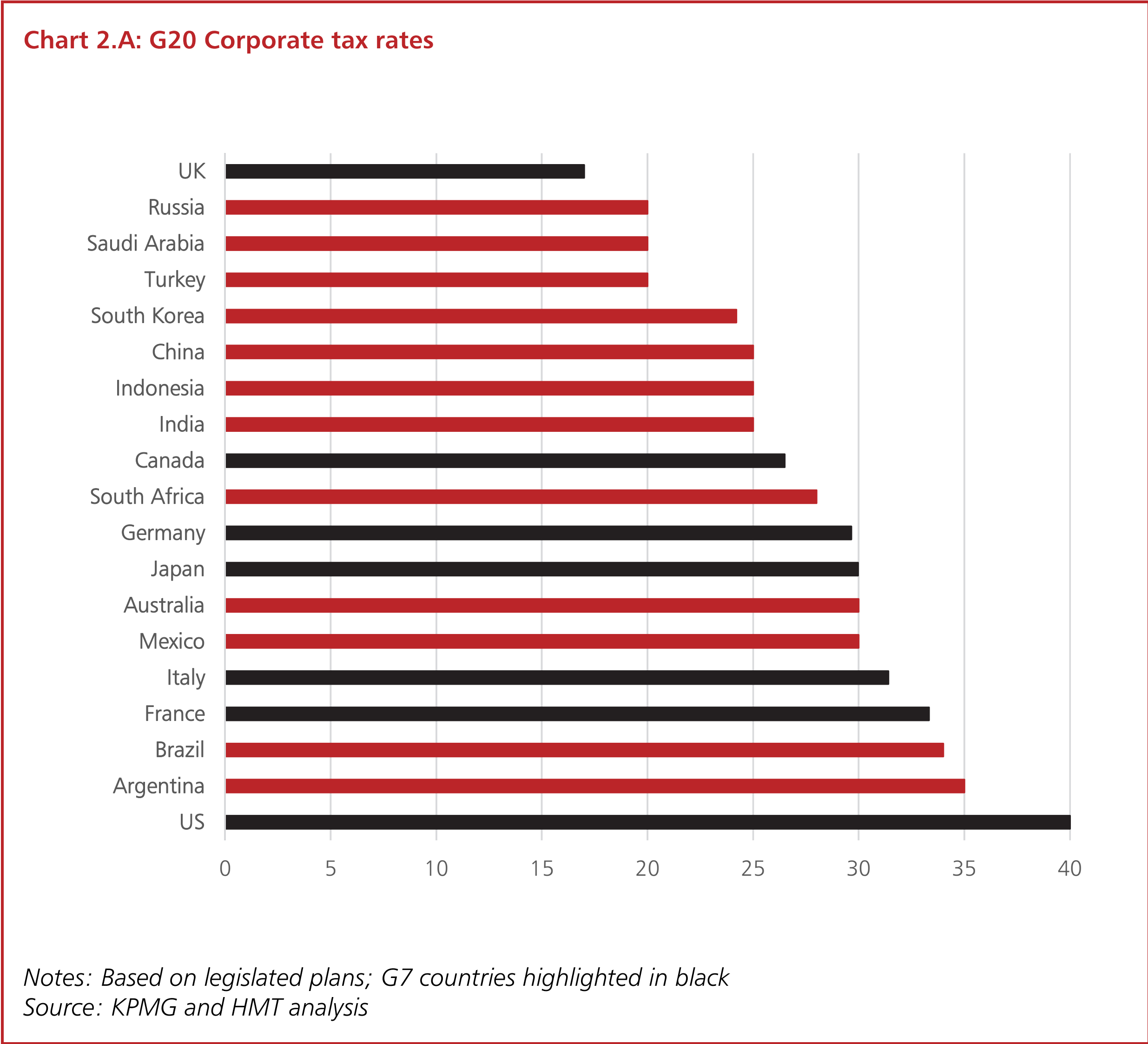
Corporation tax

2.9 As set out in Chapter 1, high rates of corporation tax distort investment decisions and undermine economic growth. Reducing corporation tax increases the returns companies receive on their investment. This makes marginal projects more likely to go ahead, and makes the UK more attractive to inward investors. Increased investment helps drive higher productivity and economic growth.

2.10 Since 2010 the government has cut the main rate of corporation tax from 28% to 20%, cut the small profits rate to 20%, and unified the two rates. These tax reductions have been a central part of the government's economic strategy, contributing to the economic recovery by supporting business investment and job creation. Analysis by Oxford University has suggested that the corporation tax reforms delivered in the last Parliament could increase business investment by £11 billion.[1]

2.11 At the Summer Budget the government announced plans for further cuts, to 19% in 2017 and 18% in 2020. This road map sets out plans to go further still. **The government will cut the rate of corporation tax to 17% in 2020,** benefitting over a million companies. These cuts will ensure the UK has the lowest rate of corporation tax in the G20, and by far the lowest in the G7 (see chart below). Overall, the cuts to corporation tax rates delivered since 2010 will be worth almost **£15 billion a year** to business by the end of the Parliament.

Chart 2.A: G20 Corporate tax rates



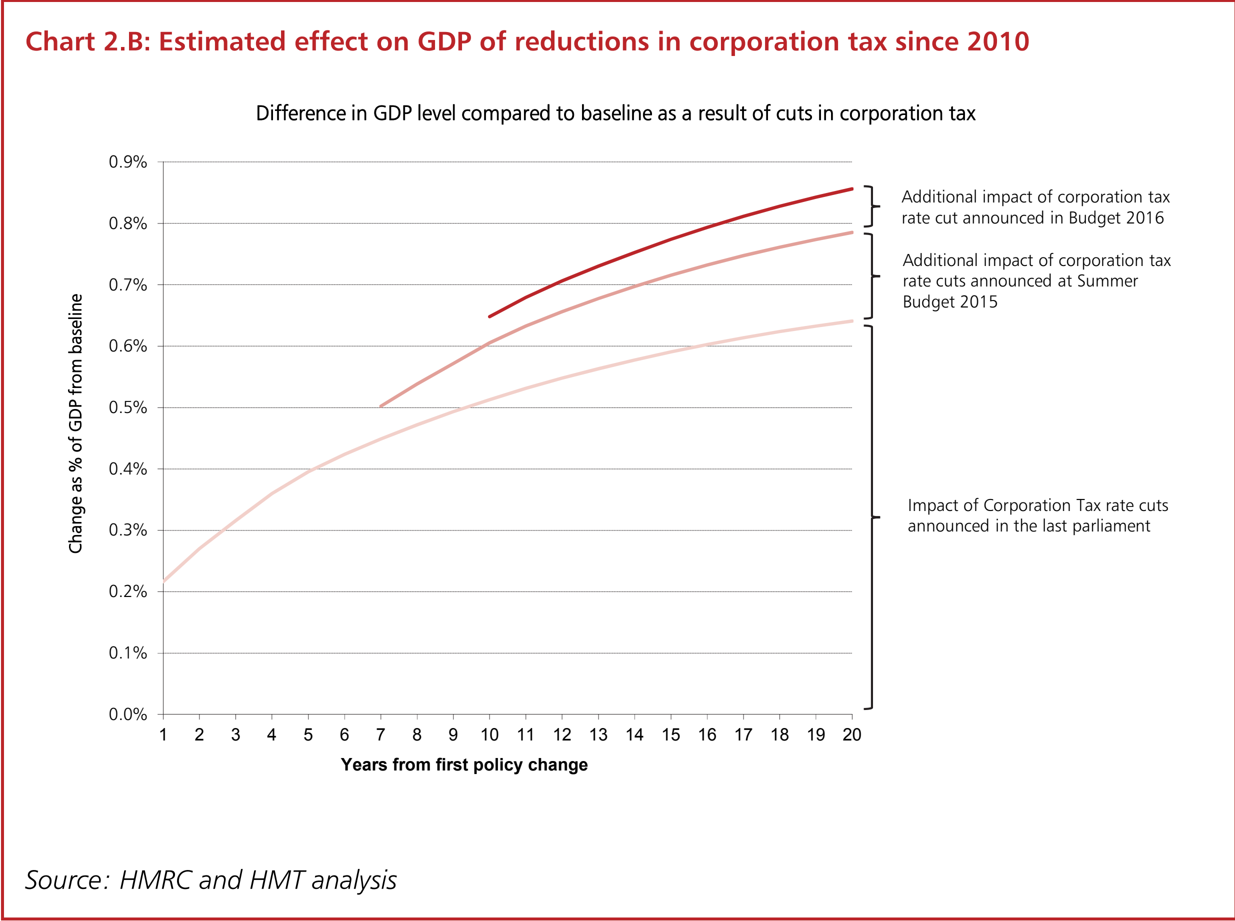
Notes: Based on legislated plans; G7 countries highlighted in black
Source: KPMG and HMT analysis

2.12 In 2013, the government published analysis modelling the long-term economic impact of the corporation tax cuts delivered in the previous Parliament.[2] This analysis has been updated to include the further cuts in corporation tax to 17%. It suggests that the cuts announced since 2010 could increase GDP by between 0.6% and 1.1% in the long run. These numbers exclude the positive impact the cuts will have on inward investment. Adjusting for inward investment

[1] https://www.sbs.ox.ac.uk/sites/default/files/Business_Taxation/Docs/Publications/Reports/cbt-coalition-report-final.pdf
[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263560/4069_CT_Dynamic_effects_paper_20130312_IW_v2.pdf

would mean that the overall cuts could boost GDP by between 0.8% and 1.3% (£15 billion to £24 billion in today's prices[3]). Chart 2.B below shows the impact on GDP in the central case, excluding the foreign direct investment adjustment.

Chart 2.B: Estimated effect on GDP of reductions in corporation tax since 2010



Source: HMRC and HMT analysis

2.13 The government will continue to keep rates of corporation tax under review, as a key element of a business tax regime which drives growth and investment.

Oil and gas

2.14 The government is committed to encouraging investment in the UK Continental Shelf (UKCS) as well as the rest of the economy. It wants to make sure that the UK has one of the most competitive tax regimes for oil and gas in the world, supporting jobs and investment and safeguarding the future of this vital national asset.

2.15 The UK Continental Shelf (UKCS) continues to deliver significant economic benefits for the UK, supporting hundreds of thousands of jobs and supplying a large portion of the UK's primary energy needs. But the economics of the basin are changing, and the tax system needs to respond. It was for that reason that in 2014 the government launched a wide-ranging review (Box 2.A).

[3] Equivalent change in 2015 GDP

Box 2.A: The oil and gas fiscal review

At Budget 2014, the government committed to review the long-term future of the oil and gas fiscal regime. Following a call for evidence, the government published *Driving Investment: a plan for reform of the oil and gas fiscal regime* in December 2014. This review concluded that the economic conditions within the basin had changed fundamentally and that levels of investment could not be maintained without fiscal change.

Driving Investment set out a radical plan of fiscal reform, designed to support the government's twin objectives of maximising the economic recovery of hydrocarbon resources whilst ensuring a fair return on those resources for the nation. It also established the following principles for future oil and gas fiscal policy:

- to be consistent with the objective of maximising economic recovery as new projects become ever more marginal, the overall tax burden will need to fall as the basin matures
- when making judgements about fiscal policy, the government will consider the wider economic benefits of oil & gas production, in addition to revenues
- the government's judgement of what constitutes a 'fair return' will take account of the global competitiveness of commercial opportunities in the UK and UKCS, and take account of both commodity prices and costs

Delivering on this plan, the government announced a package of fiscal reforms at March Budget 2015. This included:

- introducing a new Investment Allowance to stimulate investment at all stages of the industry life cycle
- reducing the Supplementary Charge from 30% to 20%
- reducing the rate of Petroleum Revenue Tax from 50% to 35%

2.16 Budget 2016 reaffirms the government's commitment to the key principles set out in *Driving Investment*, delivering the next stage of reform for the UKCS and helping to support the industry through the challenging commercial conditions caused by the steep fall in oil prices since mid-2014. As part of this, the government will:

- **permanently zero-rate Petroleum Revenue Tax**, to simplify the regime for investors and level the playing field between investment opportunities in older fields and infrastructure and new developments. The change will take effect from 1 January 2016
- **reduce the Supplementary Charge from 20% to 10%,** to send a strong signal that the UK is open for business and in recognition of the exceptionally challenging conditions that are currently facing the sector. The change will take effect from 1 January 2016
- **maintain the rate of Ring Fence Corporation Tax at 30%,** to ensure the UK continues to get a fair return on its oil and gas resources and reflect the generosity of the first-year capital allowances available to the sector

2.17 In addition, the government is introducing targeted measures to encourage investment in exploration, infrastructure and late-life assets. The government will:

- **provide a further £20 million of funding for a second round of seismic surveys in 2016-17**, as announced by the Prime Minister in January, to encourage further exploration in under-explored areas of the UKCS
- **extend the Investment and Cluster Area Allowances to include tariff income**, in order to encourage investment in infrastructure maintained for the benefit of third parties
- **provide certainty that companies will be able to access tax relief on their costs when they retain decommissioning liabilities for an asset after a sale,** to encourage new entrants for late-life assets and the development of late-life business models
- build on the new decommissioning powers of the Oil and Gas Authority (OGA) by **undertaking further work with the OGA and industry to reduce overall decommissioning costs,** to deliver significant savings for industry and the Exchequer. If significant progress can be made, **the government will explore whether decommissioning tax relief could better encourage transfers of late-life assets**

2.18 This radical package will ensure the UK has one of the most competitive tax regimes for oil and gas in the world, supporting jobs and investment and safeguarding the future of this vital national asset.

2.19 The government commits to preserve a stable and predictable UK oil and gas ring-fence regime. The government will consult further on the application of the new interest restriction rules to ensure that existing commercial arrangements within the ring-fence are not adversely affected.

Capital Gains Tax

2.20 The government is committed to supporting businesses, large and small, to grow and achieve their potential.

2.21 In the last Parliament the government took important steps to support entrepreneurs looking to start their own business. This included increasing the lifetime limit in entrepreneurs' relief, introducing the Seed Enterprise Investment Scheme, and setting up the British Business Bank. Now the government wants to take further steps to ensure that companies have access to the capital they need to scale up and expand. Capital Gains Tax (CGT) is a key determinant of the returns that can be made from investment in companies. At 28%, the UK's higher rate of CGT is the joint seventh highest in the OECD.

2.22 **The higher rate of CGT for most assets will be cut from 28% to 20%. The basic rate of CGT will be cut from 18% to 10%.** There will be an 8 percentage point surcharge for gains on residential property and carried interest for fund managers. This will mean that CGT provides an incentive to invest in companies instead of buy-to-let property.

2.23 In addition, **entrepreneurs' relief will be extended to longer term external investors in unlisted companies.** This will provide a 10% rate for external investors holding shares in unlisted companies for at least three years. It will apply to newly issued shares purchased on or after 17 March 2016, provided they are held for a minimum of three years from 6 April 2016, and will be subject to a separate £10 million lifetime limit on eligible gains. This will provide a further incentive for longer term investment into unlisted companies, helping them to access the finance they need to grow and create jobs.

The self-employed and the sharing economy

2.24 The UK has experienced strong growth in self-employment over the last 7 years. 150,000 more individuals became self-employed in 2015 alone. The government is committed to supporting these individuals through a simpler and fairer tax and NICs system. **So from April 2018, the government will abolish Class 2 National Insurance contributions (NICs).** This will reduce the NICs paid by 3.4 million self-employed individuals by an average of £134 a year and will end an outdated and complex feature of the NICs system.

2.25 The government is committed to encouraging entrepreneurship and as a result of the rapid growth of the digital and sharing economy, it is becoming easier for many more people to become 'micro-entrepreneurs'. But for many, the tax system can seem complex and off-putting. So **from April 2017, the government will introduce new allowances for the first £1,000 of trading income and the first £1,000 of property income.** Those with income below the level of the allowance will no longer need to declare or pay income tax on that income. Those with income above the allowance can benefit by simply deducting the relevant allowance from their gross income instead of calculating and deducting their exact expenses.

2.26 Since 2010 the number of single person companies has grown from 500,000 to 720,000, and is continuing to grow. There are good reasons for people to work through a company structure, including the protection of limited liability. But this means that some people working for themselves pay much less tax than others, simply because they have incorporated. This has significant costs to the Exchequer. The OBR have raised their forecast of the fiscal costs of incorporation by £1.6 billion in 2020-21, compared to their November forecast.

2.27 The government will therefore consider options for reform to achieve a fairer and more sustainable tax system, with a more level playing field for people working for themselves, regardless of business structure. As a first step, the government welcomes work planned by the OTS to continue to develop the design of a **new business model that protects the assets of the self-employed**, and to **develop options for reform of the taxation of small companies**.

Tackling avoidance and aggressive tax planning and providing a level-playing field

2.28 The government is committed to low business taxes – but these taxes must be paid. Most businesses pay the tax they owe, and the UK's tax gap is one of the lowest in the world. Nevertheless, there are a minority of businesses that deliberately try to avoid or evade paying their tax. As set out in Chapter 1, the government has taken action to address this through domestic legislation, by taking a stronger administrative approach and also through international cooperation.

2.29 The government recognises more needs to be done, particularly to address avoidance and aggressive tax planning by large multinational groups. Following the publication of the OECD BEPS outputs in October 2015, and the endorsement by G20 leaders in November 2015, the government is setting out a comprehensive package to take further action, to modernise the tax rules in the UK and to ensure these rules are applied effectively to multinationals. A full summary of what action the government is taking in response to the BEPS project is at Box 2.B, and the most significant measures the government is putting in place are set out below.

Box 2.B: UK activity in response to the BEPS actions

Following endorsement of the BEPS outputs by G20 leaders in November 2015, the government is taking forward this work as set out below.

Action 1 (Digital economy): work to update the threshold at which a company becomes taxable in a foreign country and updates to the transfer pricing guidelines to take into account technological advances will address many of the tax challenges with the digital economy. However, in the context of the rapid development of new digital technologies and business models, the government will continue to work with international partners to determine whether any supplementary rules to tackle specific tax challenges are necessary and participate in future work at the OECD.

Action 2 (Addressing hybrid mismatches): The government has taken swift action to introduce the OECD agreed rules to address hybrid mismatch arrangements in Finance Bill 2016 from 1 January 2017. The new rules will prevent multinational enterprises avoiding tax through the use of certain cross-border business structures or finance transactions that exploit differences between countries' tax rules. Further detail on the government's action on hybrid mismatches is set out below.

Action 3 (Controlled Foreign Companies rules): The UK modernised its CFC rules in 2012 after an extended period of consultation to ensure that they are fit for the global economy and effective at preventing the artificial diversion of UK taxable profits to low-tax subsidiaries. The UK CFC rules, which reflect a more territorial approach to taxation, synthesise elements from a number of the approaches covered by the BEPS report, and no amendments are being considered as a result of the BEPS project.

Action 4 (Interest deductibility): The government will introduce a restriction on the tax deductibility of corporate interest expense consistent with the OECD recommendations from 1 April 2017. Detail on the government's action on interest deductibility is set out below.

Action 5 (Intellectual property): The government will introduce legislation to reform the Patent Box in Finance Bill 2016, so that this is consistent with the nexus approach agreed through the OECD BEPS project, which links benefits to the level of R&D investment undertaken. This will ensure the Patent Box continues to provide an incentive for the development and commercialisation of IP in the UK. The effectiveness of this relief will continue to be reviewed in light of wider changes. Specifically, the government will keep under review the case for reducing the current 10% tax rate available under the Patent Box, alongside the currently scheduled reductions in the main rate of corporation tax.

Actions 6 & 7 (Treaty abuse and permanent establishment): See action 15 below.

Actions 8-10 (Transfer pricing guidelines): The government has swiftly legislated in Finance Bill 2016 to update the current link in the UK's transfer pricing rules to these guidelines, to incorporate the revisions which were agreed as part of this action. This maintains the link between the UK rules and the most current internationally agreed consensus on the practical application of transfer pricing principles. The UK continues to participate in the ongoing work at the OECD in this area to further develop these guidelines and continues to call for targeted measures to be introduced to protect them from abuse.

Action 11 (Analysis of BEPS): This will improve access to new and existing data to allow countries better to analyse risks. Data will be presented in an internationally consistent way, while still maintaining taxpayer confidentiality.

Action 12 (Disclosure of BEPS): The UK's mandatory disclosure regime was introduced in 2004. The Disclosure of Tax Avoidance Schemes rules form an important detection tool supporting HMRC's anti-avoidance strategy. Further international work will follow including monitoring the implementation of new disclosure regimes, considering how they can apply to cross border avoidance arrangements, and the sharing of information between jurisdictions who do so. This work will be taken forward through the OECD Forum on Tax Administration.

Action 13 (Country-by-country reporting): A new reporting template will improve transparency between business and tax authorities, and provide useful information that allows for an effective assessment of risks to tax systems arising from aggressive tax planning. The government has swiftly legislated to require UK multinationals to file the template with HMRC for 2016 accounting periods onwards. Submission of first reports are due by the end of 2017. The government believes there is an opportunity to go beyond the outcomes of the BEPS project and enhance transparency over multinationals' tax affairs by requiring them to make the details of tax paid publicly available on a country-by-country basis. The UK will therefore press the case for public country-by-country reporting on a multilateral basis.

Action 14 (Making dispute resolution mechanisms more effective): A tax treaty is an agreement between two countries which aims to prevent double taxation of income and capital. It achieves this by allocating taxing rights between countries. Several changes to tax treaties are recommended as a result of the BEPS project. This particular BEPS action recognises that these changes should not lead to unintended double taxation which is bad for business, and also to unnecessary uncertainty for taxpayers who play by the rules. It makes resolution of disputes between countries about how tax treaties apply more effective. The UK has committed to adopt and implement mandatory binding arbitration as a way to resolve disputes, along with 19 other countries. The UK is now working with these countries to develop a mandatory binding arbitration provision as part of the negotiation of the multilateral instrument, as well as implementing other dispute resolution changes in the multilateral instrument (see action 15).

Action 15 (Developing a multilateral instrument to modify bilateral tax treaties): Changes to tax treaties recommended as a result of the BEPS project cover:

- hybrid mismatches (see action 2)
- preventing the granting of tax treaty benefits in inappropriate circumstances
- artificial avoidance of permanent establishment status (A "permanent establishment" refers to the threshold of business activity which needs to be carried out in a country by a person in order for the person to be taxable on that activity in that country. Some businesses were engaging in artificial planning in relation to their operations in order to avoid creating a permanent establishment and triggering taxation. Changes to rules will address these artificial structures)
- making tax treaty dispute resolution mechanisms more effective (see action 14)

The UK is chairing a group of over 90 countries which is developing a multilateral instrument which will allow countries' tax treaties to be updated quickly and efficiently with the BEPS changes. An instrument is expected to be ready for signature by the end of 2016.

Tax deductibility of corporate interest expense

2.30 Businesses get tax relief in the UK for interest they incur on borrowing. Some multinational groups borrow more in the UK than they need for their UK activities, for example because the funds are used for activities in other countries which are not taxed by the UK. The tax deduction on the interest is offset against UK profits. Groups might also enter into arrangements to claim further tax relief in the other country, as well as in the UK (see chart 2.C for an example of this). This creates competitive distortions, for example between groups operating internationally and those operating in the domestic market. These arrangements can readily be created within a group with the effect that the intra-group interest far exceeds interest paid to third parties.

2.31 Under Action 4 of the BEPS project, the OECD has recommended an approach to the design of rules to prevent base erosion through the use of interest expense. The government believes the rules set out in the OECD report are an appropriate response to the BEPS issues identified.

2.32 Following a consultation with interested parties on how the OECD recommendations would work in the domestic context, **the government will be introducing a restriction on the tax deductibility of corporate interest expense consistent with the OECD recommendations**. The new rules will apply from 1 April 2017. This further demonstrates the government's commitment to align the location of taxable profits with the location of economic activity, and is in line with the UK's more territorial approach to corporate taxation.

2.33 The UK will be introducing a **Fixed Ratio Rule limiting corporation tax deductions for net interest expense to 30%** of a group's UK earnings before interest, tax, depreciation and amortisation (EBITDA). This approach is in line with the rules that exist in several other countries and international best practice addressing profit-shifting through interest. A level of 30% remains sufficient to cover the commercial interest costs arising from UK economic activity for most businesses.

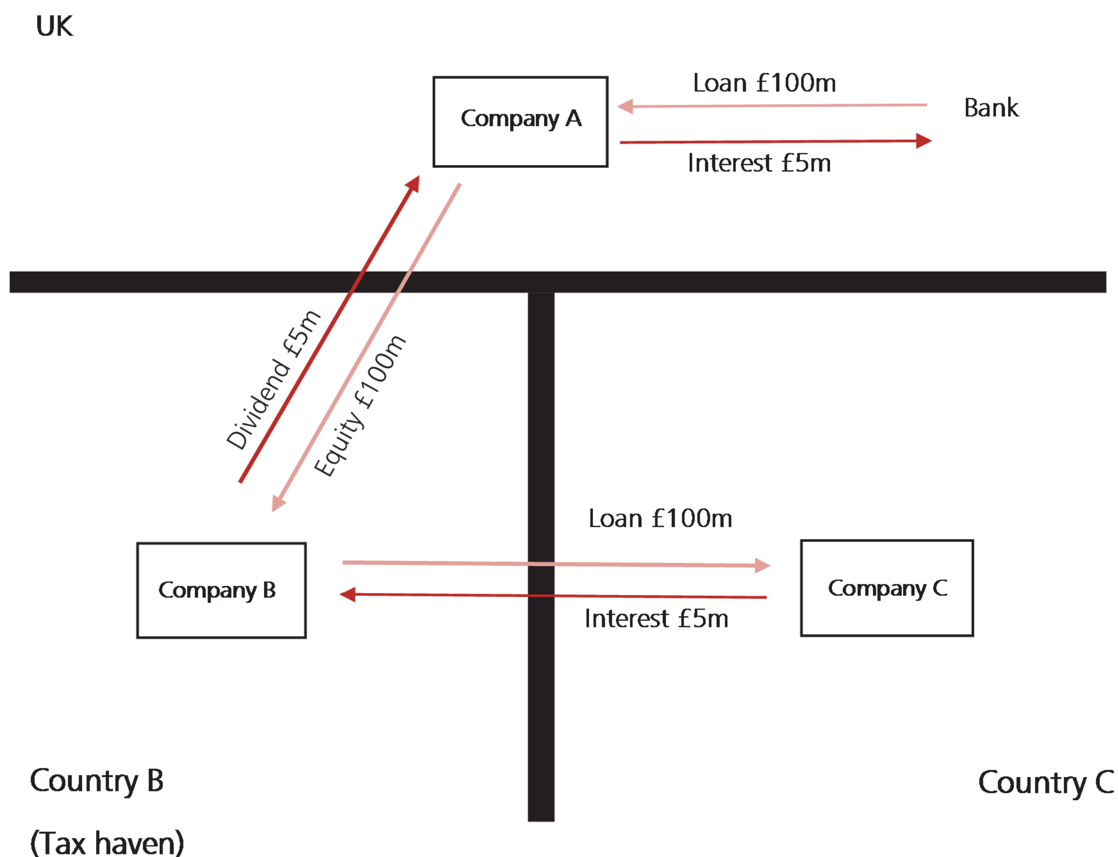
2.34 Recognising that some groups may have high external gearing for genuine commercial purposes, the UK will also be implementing a group ratio rule based on the net interest to EBITDA ratio for the worldwide group as recommended in the OECD report. This should enable businesses operating in the UK to continue to obtain deductions for interest expenses commensurate with their activities.

2.35 There will be a de minimis group threshold of £2 million net of UK interest expense. This will target the rules at large businesses where the greatest BEPS risks lie, and minimise the compliance burden for smaller groups. The threshold is estimated to exclude 95% of groups from the rules.

2.36 The government also intends to introduce rules to ensure that the restriction does not impede the provision of private finance for certain public infrastructure in the UK where there are no material risks of BEPS. It will also introduce rules to address volatility in earnings and interest. Further consultation will be conducted on the detailed design of all aspects of the rules in due course. The government will also continue engaging with the OECD on the design of rules to prevent BEPS involving interest in the banking and insurance sectors.

2.37 There will no longer be a need for a separate worldwide debt cap and the existing legislation will be repealed. Rules with similar effect will be integrated into the new interest restriction rules, such that a group's net UK interest deductions cannot exceed the global net third party expense of the group. This modified cap will strengthen the new rules and help counter BEPS in groups with low gearing.

Chart 2.C: An example of BEPS involving interest expense



A multinational group has subsidiary companies in the UK (company A), low-tax country/tax haven B (company B) and country C (company C). Company A borrows £100 million from a bank and pays £5 million interest, for which it obtains relief against its profits in the UK. The funds borrowed by company A are not used in the UK but are invested by way of equity into company B in low-tax country B. Company B pays company A a dividend, which is not taxed in the UK.
Company B acts as a group finance company and lends the funds it receives as equity to company C, where they are used to fund activity in country C. There is no tax in country B on the interest received by company B from company C.
Company C claims a further £5 million relief in country C for the interest payment to company B. Effectively the multinational group claims relief twice for interest on the same £100 million external borrowing.

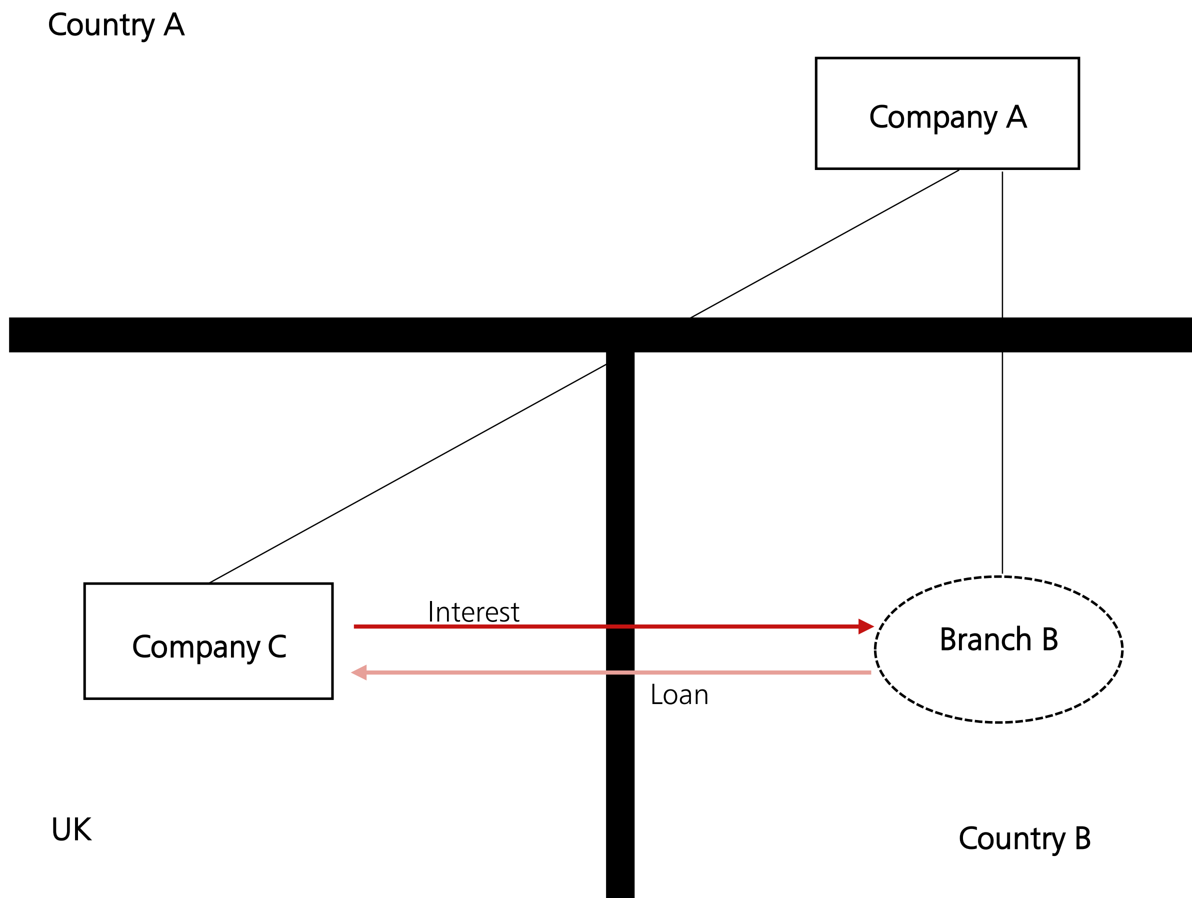
Source: HM Treasury

Hybrid mismatch arrangements

2.38 At Autumn Statement 2014, the government announced new rules to address hybrid mismatch arrangements, which are used by some multinationals to exploit differences between countries' rules to avoid paying tax in either country, or to get excessive tax relief by deducting the same expense in more than one country. The rules are based on recommendations of the OECD BEPS project (Action 2). The government has consulted on these rules and legislation will be introduced in Finance Bill 2016 effective from 1 January 2017.

2.39 The government is now **going further by extending the legislation in Finance Bill 2016 to eliminate the tax advantage arising from the use of mismatches involving permanent establishments.** This will strengthen the proposals, further restricting the opportunities for tax avoidance by multinationals, leading the way on international work. Chart 2.D sets out an example of BEPS involving hybrid mismatches through a branch structure.

Chart 2.D: An example of BEPS involving hybrid mismatches through a branch structure



A multinational group has subsidiary companies in the UK (Company C) and country A (Company A), and a permanent establishment (PE) of company A in country B, shown in the diagram as Branch B. Branch B lends funds to company C, and company C pays interest to branch B. Company C obtains relief in the UK for the interest payment. Country A does not tax the interest receipt in Branch B because under Country A's law it is treated as being taxable in country B as a PE. However, country B does not tax the interest receipt because under Country B's law there is insufficient presence to constitute a taxable permanent establishment in country B. Therefore, the interest receipt is not taxed in either country A or B, resulting in a tax mismatch as a consequence of differences in the relevant tax rules for the two countries. The new rules will counteract the use of this structure for tax avoidance by denying relief in the UK for the interest payment from company C, thereby neutralising the tax mismatch.

Source: HM Treasury

Withholding tax on royalty payments

2.40 Intragroup royalty payments to low tax jurisdictions can be used by multinational enterprises (MNEs) as a way to shift profits around the globe. The current rules only apply a withholding tax on royalties in limited circumstances. The government is acting to ensure royalty payments cannot be used to shift profits from the UK to low tax jurisdictions, either directly, or via a second country. This change will have three aspects:

- First, **the government will extend the UK's withholding tax rights so that payments for the use of intangible assets such as trademarks and brand names made to overseas persons will be subject to withholding tax**. This will always be the case, unless the UK have explicitly given up taxing rights over those royalties under an international agreement (either a double taxation agreement (DTA) or the EU Interest and Royalties Directive)

- Second, **the government will introduce a domestic law treaty abuse rule**, to ensure that payments cannot be diverted via conduit countries with which we have a DTA. This means the UK will withhold on a royalty payment if it is being routed through a treaty partner jurisdiction for tax motivated and uncommercial reasons
- Finally, **the government will apply withholding tax on royalty payments that are connected with the activities of UK permanent establishments of overseas companies**

Further action to ensure tax compliance by large business

2.41 The government continues to ensure that the compliance framework encourages the right behaviours by large businesses. At Summer Budget 2015 the government announced:

- A requirement for large businesses to publish their tax strategy as it relates to or affects UK taxation
- A 'special measures' regime to tackle the small number of large businesses that persistently engage in aggressive tax planning and/or refuse to engage with HMRC in an open and collaborative way
- A new Framework for Co-operative Compliance. In line with OECD best practice, the objective of co-operative compliance is to manage the tax risks that large businesses present, so that they pay the right amount of tax at the right time. HMRC's approach to 'cooperative compliance' delivered £7.3 billion compliance yield in 2014-15 alone

Overseas property developers

2.42 The government is committed to ensuring a level playing field across business taxes. Some property developers use offshore structures to avoid UK tax on their trading profits from building property in the UK. The government is acting to ensure that **non-resident developers of UK property will always pay UK tax on the trading profits from that development**. This is in line with international standards. The measure will level the playing field between UK property developers, and those based in offshore jurisdictions. Property developers already paying full UK tax should not be affected. The measure will come into effect from Report Stage of Finance Bill 2016.

Simplifying and modernising the tax regime

2.43 The government will continue to modernise and simplify the tax system. Businesses that comply with tax rules fairly and consistently should find the tax system easy to understand and navigate.

2.44 The OTS will remain a key part of these efforts, and at the Summer Budget 2015 the government announced that it will establish the OTS on a permanent basis with an expanded role and capacity. **The new, expanded OTS will be put on a statutory footing in Finance Bill 2016**, and will continue to provide independent advice on how to deliver a simpler tax system. It will play a greater role in the public debate, provide challenge to HMRC on its important digital agenda and tackle complexities in the tax system.

Business energy tax review

2.45 An area that has been of growing concern amongst businesses and an area where modernisation and simplification is needed, is the UK's approach to taxing energy consumption. Many have argued that the current system is complicated, inefficient and unduly burdensome. For these reasons, at Summer Budget 2015 the government announced it would review the

system, looking in particular at options to simplify and improve the effectiveness of the regime. Following consultation, the government will be making a radical simplification, marking the biggest reform to business energy taxes since they were first introduced.

2.46 The government will **abolish the CRC energy efficiency scheme** (CRC) from the end of the 2018-19 compliance year, with no purchase of allowances required to cover emissions used from April 2019. The CRC has many complexities, so its abolition will simplify the tax system, reducing the administrative burden on affected businesses. The onerous system of forecasting energy consumption, purchasing and surrendering allowances will be abolished, moving to one energy tax calculated by suppliers and placed on business energy bills. The government will work with the Devolved Administrations on closure arrangements for the CRC.

2.47 The government understands the need for businesses to manage and understand their energy consumption. It will consult on a new streamlined reporting framework in 2016, to replace the current overlapping requirements with the aim of reducing overall business admin burdens.

2.48 The main rates of Climate Change Levy (CCL) will increase from April 2019. This will recover revenue from abolishing the CRC, in a fiscally neutral reform, and will motivate CCL-paying businesses to find greater energy savings through a single energy tax. Against a backdrop of falling gas prices, the CCL rates for different fuel types will be rebalanced. This will reflect recent data on the fuel mix used in electricity generation, moving to a ratio of 2.5:1 (electricity:gas) from April 2019, compared to the current 2.9:1 ratio. This will more strongly incentivise reductions in use of gas, in support of the UK's climate change targets. In the longer term, the government intends to rebalance the rates further, reaching a ratio of 1:1 (electricity:gas) rates by 2025. This gives businesses time to plan ahead to improve their energy efficiency and adopt new technologies that reduce their gas consumption.

2.49 These reforms will put in place a single, streamlined business energy tax **to unlock investment in business energy efficiency, whilst protecting the smallest businesses and most energy-intensive firms**. The CCL discount available to Climate Change Agreement (CCA) participants will increase from April 2019 to ensure they pay no more than an RPI increase, and eligibility criteria for existing CCA schemes will be retained until at least 2023. The previously announced CCA target review including the review of the buy-out price for target periods 3 and 4, which was on hold pending the outcome of the review will recommence later this year to ensure the targets are achievable and continue to drive energy efficiency.

2.50 The government is publishing full details of the outcome of the energy tax review alongside Budget 2016.

Stamp Duty Land Tax

2.51 The government will reform Stamp Duty Land Tax (SDLT) on non-residential property transactions, cutting the tax for many businesses purchasing property.

2.52 Currently, SDLT rates on freehold and lease premium transactions operate on a slab system, where one tax rate is due on the entire transaction value. This creates distortions in the market and leads to large increases in SDLT as transactions move into higher tax bands. A small business buying a property for £250,000 pays £2,500 in SDLT. If the price is just £1 higher, their tax bill is trebled. **These rates will be reformed to a slice system, so that SDLT is payable on the portion of the transaction value which falls within each tax band. The new rates will be 0% for the portion of the transaction value between £0 and £150,000; 2% between £150,001 and £250,000; and 5% above £250,000**. All freehold and lease premium transactions below £1.05 million will pay the same or less in SDLT.

2.53 The government will also **introduce a new 2% rate for leasehold rent transactions where the net present value is above £5 million**. These transactions are already taxed on a slice basis. Leasehold rent transactions up to £5 million will remain unaffected.

2.54 In combination, these changes ensure that businesses purchasing the highest value freeholds and leases make a larger contribution whilst delivering a tax cut for those purchasers, often smaller businesses, who purchase less expensive properties. Around 42% of commercial property transactions pay no SDLT at all due to the generous nil-rate bands. Of the remainder that do pay SDLT, around **43% of businesses will pay less tax and a further 42% will pay the same. As a result of these changes over 90% of non-residential property transactions will pay the same or less in SDLT, with only 9% paying more.**

2.55 These changes will take effect on 17 March 2016. For those transactions which have already exchanged contracts but not completed when the changes come into force, transitional rules will ensure taxpayers will not lose out.

Loss relief

2.56 Loss relief is an important part of the corporation tax regime. It is another area of the tax system that is in need of modernisation, bringing it into line with international best practice.

2.57 First, under the current system, losses carried forward can only be used by the company that incurred the loss, and not used in other companies in a group – unlike in other countries including France and Germany. In addition, some losses carried forward can only be set against profits from certain types of income, for example trading losses set against trading profits. This can produce unfair outcomes and is out of step with the way businesses operate. So **the government will make these rules more flexible, benefitting more than 70,000 companies. For losses incurred on or after 1 April 2017, companies will be able to use carried forward losses against profits from other income streams or from other companies within a group.**

2.58 Second, the current rules enable companies to offset all their eligible taxable profits through losses carried forward. This can lead to a situation where a large company pays no tax in a year when it makes substantial profits. To address this, **the government will restrict the amount of taxable profit that can be offset through losses carried forward**. The majority of G7 countries already have restrictions of this kind in place. From 1 April 2017 the government will restrict to 50% the amount of profit that can offset through losses carried forward. **The restriction will only apply to profits in excess of £5m.**[1] This £5 million allowance will ensure that 99% of companies are unaffected by the restriction.

2.59 This package of reforms to loss relief will modernise one of the most outdated elements of the tax regime. The government will consult on the design of the reforms in 2016, and will legislate in 2017. These changes will not apply to the oil and gas fiscal regime.

2.60 The government has already restricted to 50% the amount of profit that banks can offset with pre-April 2015 carried-forward losses, in order to reduce the impact on corporation tax receipts of losses incurred during the financial crisis and subsequent misconduct scandals.

2.61 It is right that the exceptional treatment of banks' historic losses is maintained as part of this reform. The government will therefore restrict the amount of profit that banks can offset with pre-April 2015 carried-forward losses to 25% from 1 April 2016.

[1] Where a number of companies are in a single group, the £5m allowance will apply per group, rather than per company. The group will then have discretion as to how it applies the allowance. For instance the £5m allowance could be applied to a single company within the group, or split between multiple companies within the group.

2.62 Losses that banks have incurred post-April 2015 will continue to be treated in the same way as other industry groups. The same will be true for pre-April 2015 losses that are covered by the existing new-entrant bank and building society reliefs. Box 3.C sets out the government's plans for bank taxation for the rest of the Parliament.

Box 2.C: Bank taxation

The government is committed to reinforcing the UK's position as a world leading financial centre. However, this commitment needs to be balanced against the need for banks and building societies to make an appropriate tax contribution that reflects their unique risks to the financial system and wider UK economy. The Summer Budget 2015 set out a long-term plan for delivering this balance, one which takes account of developments in regulation and the ongoing recovery in bank profitability.

This plan involves:

- the introduction of a new 8% tax on banking sector profit from 1 January 2016
- a phased reduction of the bank levy rate, from a rate of 0.21% in 2015 to 0.1 percent from 1 January 2021
- a change in the bank levy's scope from 1 January 2021 to exclude the balance sheet liabilities of non-UK companies from charge

This will provide a more competitive and sustainable model for taxing the UK banking sector in the long-run, with a 25% rate of tax on banking sector profit (the lowest rate amongst G7 countries) and a 0.1% levy on the balance sheet liabilities of UK banking operations.

It will also introduce greater stability into the banking tax regime by allowing tax receipts to respond naturally to changes in banks' balance sheets and profitability over time.

The government previously announced restrictions on the tax relief that banks receive for misconduct compensation and losses brought forward from periods prior to 1 April 2015.

The government believes that these sector-specific restrictions remain appropriate and has taken steps to ensure that the differential treatment of bank and non-bank losses is maintained in the context of wider reforms to loss-relief.

Substantial shareholdings exemption and double taxation treaty passport scheme

2.63 The government will review the Substantial Shareholdings Exemption (SSE) and Double Taxation Treaty Passport (DTTP) scheme.

2.64 The SSE means that capital gains on corporate share disposals are not subject to UK corporation tax where certain conditions are satisfied. It was introduced in 2002 and was designed to ensure that tax does not act as a disincentive to commercially desirable business sales or group restructuring, but it is in need of modernisation.

2.65 There have been significant developments in the UK and international corporate tax landscape since the SSE was first introduced. The government will therefore consult on the extent to which the SSE is still delivering on its original policy objective and whether there could be changes to its detailed design in order to increase its simplicity, coherence and international competitiveness.

2.66 The DTTP scheme was introduced in 2010 and reduces the administrative burden for foreign companies lending to UK companies by making it easier for them to access the UK's network of tax treaties.

2.67 **HMRC will review the scheme to ensure it still meets the needs of UK borrowers and foreign investors.** A consultation document released later this year will also seek to determine whether the scheme should be extended to other types of foreign investor, including sovereign wealth funds, pension funds and partnerships.

2.68 The UK has a thriving investment management sector, supported by the government's investment management strategy published in 2013. Where foreign funds already have investment management activity in the UK, the government wants to build on that presence by encouraging those funds to establish more of their investment activity in the UK.

Tax administration and customer service

Tax administration

2.69 UK competitiveness relies on the tax system being straightforward and simple for businesses to deal with. The government is committed to making it quicker, easier and simpler for businesses to report and pay tax, and has set HMRC a stretching target to **reduce the cost to business of dealing with HMRC by £400 million over the course of the Parliament.**

2.70 The Making Tax Digital reforms, announced at the Autumn Statement and Spending Review 2015, will transform tax administration, reducing burdens for millions of businesses by abolishing the tax return and introducing a personalised, digital service, with alternatives available for those who cannot get online.

2.71 As part of Making Tax Digital, the government has been consulting on how to improve the difficulties many businesses and self-employed individuals face in trying to manage their tax payments. A key challenge many have reported is the need to put money aside to make large and infrequent payments that can be difficult to plan for.

2.72 To resolve this, **from 2018, businesses, self-employed individuals and landlords who are keeping digital records and providing regular digital updates to HMRC will be able to voluntarily adopt pay-as-you-go tax payments**. This will enable them to choose payment patterns that suit them and better manage their cash flow. The government will also **consult on a range of simplification options** to reduce administrative burdens and ensure that regular digital updates work smoothly.

HMRC customer service

2.73 For millions of small and medium-sized businesses, getting the right help and support at the right time is at least as important as the fundamentals of tax rates and reliefs. HMRC's use of digital technology will create improved services that are built around customers' needs. But the government remains committed to continually improving the full range of HMRC services alongside the ambitious digital vision. This means offering tailored support at different stages of the business lifecycle.

2.74 For **start-up businesses and companies**, the government will:

- **Introduce a dedicated phone line for businesses and self-employed individuals** to get help and support about filing and paying their taxes for the first time, and on the transition to using digital services. Alongside this, HMRC will provide a new **online forum for small businesses and self-employed individuals** to seek help on their tax affairs

- **Explore extending the new streamlined company registration service so that all businesses can register for tax through a single digital service.** HMRC will explore the opportunities to provide a streamlined way for taxpayers to register as a business, whether self-employed, partnership or a company, making it easier to access their digital tax account

2.75 For **mid-size and fast-growing companies**, the government will:

- **Announce plans by the end of 2016 to provide mid-sized businesses with access to a named adviser at key points of transition**, alongside publication of an update on the pilots of this service that were announced at Autumn Statement 2014

- **Pilot the delivery of targeted support to high-growth businesses through joint-working between HMRC and Regional Growth Hubs**, and publish an evaluation of the pilots at Autumn Statement 2016

2.76 In addition, all small businesses may still need help and support from HMRC. From April 2017, HMRC will:

- **Improve telephone services and reduce call waiting times** by recruiting over 800 new call centre staff

- **Offer longer opening hours and a 7-day a week service on tax and tax credits phone lines and web chat.** This responds to an OTS recommendation, recognising that many businesses and self-employed individuals need the opportunity to contact HMRC outside of working hours

2.77 For **large businesses**, HMRC will continue to operate through Customer Relationship Managers, who provide a single point of contact for large companies.

Payment dates for very large companies

2.78 One area where the government has already announced changes to modernise the UK regime is corporation tax payment dates for the largest and most profitable companies. Currently, these companies pay tax in the UK later than in most other G7 countries. At the Summer Budget 2015, the government announced it would address this by bringing forward payment dates for companies with profits in excess of £20m.[2]

2.79 These companies will now be required to make corporation tax payments in the third, sixth, ninth and twelfth months of their accounting periods. The new payment schedule had been due to apply from 2017, but to give companies more time to prepare for the transition, the government has deferred the measure by two years. The new payment schedule will now apply to accounting periods starting on or after 1 April 2019.

[2] Where a company is a member of a group, the £20m threshold will be divided by the number of companies in the group.

3 Timetable for reform

Table 3.A: Timetable for reform

2016
Capital Gains Tax • from 6 April, the top rate of Capital Gains Tax will be cut from 28% to 20%, and the basic rate will be cut from 18% to 10%. There will be an 8 percentage point surcharge for gains on residential property and carried interest • entrepreneurs' relief will be extended to longer term external investors in unlisted companies
Oil and Gas • Petroleum Revenue Tax will be permanently reduced from 35% to 0% • the Supplementary Charge will be reduced from 20% to 10%
Revised Patent Box will be introduced
Business Rates: publication of a discussion paper on how to deliver more frequent revaluations.
Treaty abuse rule brought in with immediate effect to prevent royalty payments being made through conduits. Withholding Tax on royalty payments widened with effect from royal assent.
Offshore property developers brought into the charge of UK tax from report stage of FB16.
Energy taxes: consultation on streamlined reporting requirement.
HMRC launch pilots for delivering help and support through Growth Hubs.
Stamp Duty Land Tax on non-residential property transactions: • reform stamp duty land tax on freehold and lease premium transactions to a slice structure, so that SDLT is payable on the portion of the transaction value which falls within each tax band • introduce a new 2% rate of SDLT for leasehold rent transactions, where the net present value of the rent is above £5 million
Consultation on the detail of interest relief restriction, the reform of loss relief and the potential reform of the Substantial Shareholdings Exemption and the Double Taxation Treaty Passport scheme.
2017
Corporation tax cut to 19%

Business Rates:

- permanently double Small Business Rate Relief (SBRR) and increase the lower threshold to £12,000 and the upper threshold to £15,000
- increase starting threshold for higher multiplier from £18,000 to £51,000
- standardise business rate bills and ensure ratepayers have the option to receive and pay bills online

Tax deductibility of corporate interest expense:

- rules will be introduced for addressing base erosion and profit shifting through interest expense from 1 April 2017

Addressing hybrid mismatch arrangements:

- rules will be introduced for addressing hybrid mismatch arrangements from 1 January 2017 in Finance Bill 2016.

Reform corporation tax loss relief:

- for losses incurred from April 2017, enable companies to use carried forward losses against profits from other income streams or other companies within a group
- for taxable profits in excess of £5 million, restrict to 50% the amount of profits that can be offset through losses carried forward

Administration:

- HMRC to reduce average call waiting times, by recruiting over 800 members of staff.
- HMRC call centres now open 7 days a week
- HMRC to launch new helpline for start-up businesses

New small companies have a single registration service for Companies House and HMRC; plans announced to roll out the service to unincorporated businesses.

2018

Abolish Class 2 National Insurance contributions (NICs)

2019

Energy taxes:

- large businesses to report through new streamlined reporting framework
- abolish CRC energy efficiency scheme
- Increase Climate Change Levy (with rebalancing of rates)

Corporation tax payment dates for companies with profits over £20 million brought forward

2020

Corporation tax cut to 17%

Business Rates indexation to be moved from RPI to be consistent with the main measure of inflation currently CPI

Source: HM Treasury

HM Treasury contacts

This document can be downloaded from www.gov.uk

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