TAX AFTER CORONAVIRUS

A pamphlet of opinion from an adviser on tax

Ray Coman, FCCA, CTA

HM Treasury has launched a call for evidence to determine what tax can be borne by the economy post covid19. The focus will be on where it can be simplified, where tax can be levied to the least determinant of the economy and which tax relief will be most effective in accelerating recovery.

Recap on the context

Government support has been designed to keep afloat those parts of the economy that have ceased or curtailed activity to enable lockdown. A shirking economy has reduced tax receipts and an increase in tax receipts will be required to restore public finances.

Income tax

The government takes the view that a rise in income tax of between two and three percent will not do any significant economic harm.
In terms of numbers, the workforce populace put out by covid19 are concentrated in the
entertainment, hospitality and travel sectors.

Low to middle income workers have received most support. Pensioners have not been eligible for support but would have income dented by further drops in retail interest rate. Higher income workers in industries such as finance, tech and professional services, who have generally stayed in work, have not been eligible for furlough, income support, benefits or grants. A blanket tax rise would avoid that disincentive to the self-supporting. A section of the workforce needed to stay put the most during recovery.

National insurance

Another option being mooted is an increase in the rate of national insurance for self-employed to the same as that for employees. That is, an increase in rate from 9% to 12%. Employer's national insurance will continue to make contract arrangement more cost effective from a tax perspective. However, for the worker, the national insurance rates could be harmonised. The tax incentive to provide work through a company would result in distorting behaviour.

Limited company compliance comes at a fixed cost and adds complexity to accounting arrangements. It is less popular among lower income self-employed workers. Construction industry scheme, healthcare and media support.

Productivity in film, theatre and live entertainment has been decimated by lockdown. Massage, fitness and therapy requiring physical contact has been hit. The building trade has experienced a more modest slump. The independently owned high street retailer reliant on footfall is being propped up almost entirely on grant. Sole traders in these areas are those have leant most on furlough, income support, universal credit, government backed loans and business rate relief. Even those who have adapted business model or vocation have found some eligibility. It is only necessary to be adversely affected to obtain support. Many claiming will not have been put out of work; altogether.

As funding buttresses lift, so businesses will fold and accredited lenders will call on the British Business Bank guarantee. Loan write off then becomes a realised cost of covid long after lockdown has been eased.

A rise in NI for sole traders between the lower and upper profits limit would aim to collect payment from those parts of the economy where cash has been distributed in the form of grant.

Graduated rise in tax

The government has hinted that tax rises required to pay for the cost of the pandemic could be introduced gradually rather than as a knee-jerk response. The justification that the tax burden is lower through recovery phase and more strenuous once the economy is back to pre-covid performance. Measured against this are likely political objectives. Characteristically the Budget prior to an election gives pollsters the most to be pleased about. By contrast the Budget which follows a new government being sworn in tends to be more confiscatory. With fixed term elections, the timing of a phased tax increase could jar with ballot objectives.

The government intends to avoid tax policy that results in distorting activities. Tax compliance costs are most keenly felt by small businesses. There is hope that quarterly reporting could be shelved as an encouragement to this sector. The proposals are to introduce from 6 April 2023, five Tax returns to be filed per year for sole traders and landlords with income over £10,000. The Treasury would benefit from an advance in cash flows. For small business, a five-fold increase in tax reporting and tax calculation will significantly complicate compliance.

A delayed tax rise will increase the mismatch between those who received support and those who paid for it. The current UK workforce will emigrate, retire and die and a new set of college and university leavers who have not benefited from covid handouts will be introduced to an economy saddled with punitive tax regulation.

Digital tax services

Since 1 April 2020, the UK has a Digital Services Tax of 2%. DST is levied on a business in the provision of social media, online marketplace or search engine services. The organisation must have UK revenues of over £25 million and a global turnover of above £500 million to be caught by the tax. France and Italy have similar taxes. The tech giants can operate without the same confines of physical location and many are headquartered in low tax jurisdictions. The service is consumed in the UK. Aimed at companies almost exclusively listed on the NASDAQ, DST was not popular with the UK's biggest export market, and criticised openly by the previous US administration. FANGS have been a beneficiary of enforced lockdown and work from home, as reflected in share price, and there alone is a justification for DST increase. The days of first page organic listing on Google could be numbered. Paywalls for online content, text, video and sound would likely increase as an outcome. There is no evidence that the DST has reduced the dominance of Digital Services in the UK.

A coordinated effort in response to what has been a global pandemic could help to prevent what is in essence corporation tax being presented as an import tariff. A campaign which places greater burden on UK business will hurt inbound investment, in any case.

Our proposal is as follows: Profit generated from a business to consumer transaction with delivery to a physical location in the UK is subject to UK corporation tax. For simple tax situations or complex tax situations. We deal with everything on a Tax return. Please contact for a free, first meeting

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