DIXON WILSON
CHARTERED ACCOUNTANTS

UK Tax Administration and Maintenance Day 30 November 2021

10 February 2022

BACKGROUND

On 30 November 2021, the Government published a paper containing technical updates and responses to consultations covering a range of topics, in a similar format to its "Tax Day" update on 23 March 2021. It is part of a larger ten-year roadmap set out by the Government and is aimed at simplifying tax administration and keeping the UK's tax laws fit for purpose, as well as taking more assertive action against non-compliance – particularly offshore non-compliance.

Much of the report covers the Government's responses to a range of policy consultations conducted by HMRC earlier in the year with individuals, corporations (small and large), not-for-profits, tax agents and representative bodies. The results of the consultations had been presented to the Government and this paper includes their responses to the findings of those consultations. In addition, the Government gave their view on a number of proposals still undergoing consultation.

Below is a summary of some of the most important changes that will be implemented, and some of the proposals that the Government has not yet agreed to implement but that may represent future tax changes.

INCOME TAX

The Government has made no immediate change to increase the regularity of income tax collection under Self-Assessment and does not intend to do so within this parliament, although this remains a long-term aim and a pilot scheme will be introduced in future.

For low-income trusts and estates, there are plans to formalise an existing concession that removes trustees and personal representatives from income tax where the only source of trust income is savings interest that generates a tax liability of less than £100. Exact details will be confirmed following further consultation by HMRC.

CAPITAL GAINS TAX

The Office for Tax Simplification's (OTS's) first CGT report, published in November 2020, referred to the behaviour of persons who try to arrange their affairs in a way that re-characterises their income as capital gains in order to pay a lower rate of tax.

The OTS suggested that if the Government wished to address this distortion, they should consider more closely aligning CGT rates with income tax rates. It was further suggested that, should this change be implemented, the Government could also consider other changes such as a form of relief for inflationary gains and greater flexibility in the use of capital losses.

Another recommendation was to lower the Annual Exempt Amount from its current £12,300 with £2,000 to £4,000 being a possible range. Again, this came with a follow-on recommendation of reviewing the chattels exemption with a mind to broaden it to include more personal effects, with only specific categories of assets being taxable.

The Government will not be making any fundamental changes to CGT following the OTS's report, which may indicate that there is no appetite for increases to CGT rates for the duration of this parliament.

The only recommendations that have been accepted are technical in nature, including:

- The reporting and payment deadline for property related CGT charges will be extended from 30 to 60 days – this was previously announced in the Autumn Budget.
- The "no gain, no loss" window for transactions that fall under the spousal CGT exemption will be extended upon separation, making divorce proceedings simpler. This will be amended to the later of:
    - The end of the tax year at least two years after the separation event; or
    - Any reasonable time set for the transfer of assets in accordance with a financial agreement approved by a court.

  We do not yet know the date on which this change will take effect.
- Rollover relief rules will also be extended to LLPs and Scottish partnerships on an exchange of land held jointly by their members of partners.

INHERITANCE TAX

Again, having considered the OTS's report into IHT, the Government will not be making any of the suggested changes at this time. For reference, some of the more notable suggestions in the OTS's report included:

- Reducing from seven years to five the window for Potentially Exempt Transfers (PETs) to become exempt from IHT.
- Changing the allocation of the nil-rate band to a system of apportionment across all lifetime gifts rather than the exempt amount being applied against earliest gifts first.
- Removing the CGT base cost uplift to market value on death, which would have left beneficiaries with a lower base cost and higher future CGT charge upon disposal of their inherited assets.
- Increasing the threshold for classification as a "trading" business for Business/Agricultural Property Relief purposes from 50% to 80%.

Again, we would hope that silence on the above points means that there are unlikely to be any substantial reforms to IHT statutes for the duration of this parliament.

VAT

Upon assessment of the responses to questions about simplifying the current land and property VAT exemptions, the Government has announced no new changes to existing policies.

STAMP DUTY LAND TAX

The Government have consulted on the alteration of multiple dwellings relief and mixed-property rules. No decisions have yet been made, but the following options are being considered and are still under open consultation.

MIXED-PROPERTY PURCHASES

Currently, properties that have mixed use, i.e. both residential and non-residential use, such as shops with flats above them, are charged wholly at non-residential rates. HMRC are considering introducing an apportionment rule, whereby the cost of the property would be split between residential and non-residential use and SDLT rates applied to each portion accordingly.

If introduced, it is expected that the surcharge for additional (residential) dwellings would be applied to the residential element of additional purchases.

A threshold is also being considered whereby a property is still treated as mixed-property and the current system still applied if the non-residential proportion is above a certain level.

MULTIPLE DWELLINGS RELIEF

Multiple Dwellings Relief acts such that where two or more dwellings are purchased in a single or linked transaction, the average price of the properties is used to calculate the rate of SDLT (rather than the total value). Purchasers therefore benefit from multiple nil-rate and lower percentage bands reducing the SDLT payable.

One proposed change is to only allow MDR where all properties purchased are purchased for "qualifying business use", meaning bought for development / redevelopment and sale, or exploitation as a source of rent.

A second option would be to allow MDR only for those properties purchased for qualifying business use, meaning apportionment would be allowed. The example given by HMRC in this case is the purchase of four flats, three of which are for qualifying business use and the fourth to be the purchaser's private residence. In this case only the first three would qualify for MDR.

A third option is to consider, for cases where a part of a property is being claimed as a separate dwelling, whether that part represents at least a third of the value of the entire dwelling. For example, a large annex may well constitute a third of the total value of a property and be considered a separate dwelling for MDR purposes under this rule, but a bedroom with an en-suite would probably not.

The last option would be to allow MDR only for purchases of three or more dwellings.

RESEARCH AND DEVELOPMENT EXPENDITURE

In addition to qualifying expenditure on data and cloud computing costs that were announced in the Autumn Budget, HMRC have announced that license payments for datasets and cloud computing costs that can be attributed to computation, data processing and software will also be brought into the scope of qualifying expenditure for R&D purposes.

Draft legislation will be published on this in the summer of 2022 and any changes will take effect from April 2023.

The time limit to claim Research and Development Expenditure Credit (RDEC) will also be expanded to two years from the end of the period of account rather than the current 12 months from the statutory filing date.

Furthermore, where a Small and Medium-sized Enterprise (SME) within a group becomes large, all companies within that group will retain SME status for one year afterwards, rather than all companies losing their SME status straight away as is currently the case.

CONCLUSION

Whilst many of the changes announced are relatively niche, and much of the report concerns ongoing consultations where no decisions have yet been made, there have been a number of announcements aimed at streamlining the administration of tax and to provide additional reliefs particularly for individuals and small business owners / companies.

Despite major reforms to capital taxes appearing to have been postponed for the time being, this could change when there is greater government capacity to consider how taxation revenue may be increased. It may therefore be a good time for individuals to consider whether their asset base is excessive considering their future income and capital needs, and if so to consider which assets could be passed on to younger generations.

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