

Just a thought...

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The state is back

LAURENCE FIELD considers the outlook for taxes following the general election.

A new era in UK tax policy will begin on 9 June. Whoever wins the general election, it is clear that the period of political parties committing to lower taxes is over. Stealth taxes and the never-ending war on avoidance often increased the take, but the direction of travel was clear – a slowly declining headline rate of tax.

With the demands on the state to deal with healthcare, an ageing population and education, the major political parties have made it clear that tax rates are going to be under pressure. Even the Conservatives only pledged to 'keep taxes as low as possible', not a high bar against which to be measured. The other parties openly campaign for higher taxes for particular sectors. Greater demands are being placed on the state and there seems to be political agreement that they should be met. This requires tax revenue.

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Consultation and complications

It is clear that the UK tax system is complicated. The last Finance Bill was the longest ever and it was only the election that led to the jettisoning of huge swathes of proposed tax law. Some of the measures that were lost had been through a long consultation process and are specifically designed to raise taxes from larger companies. The likelihood is that we will see them again. These include:

- restrictions on interest deductions for large companies; and
- restrictions on the use of brought forward losses.

Both of these proposals are designed to reduce the availability of tax deductions. The tax rate can be kept low, but if there are fewer allowable deductions the effective rate goes up. Private buy-to-let landlords have experienced a similar approach on their investments in the past few years. With all parties committed to raising additional revenue, it seems likely a new government will reintroduce these measures after the election.

With all the parties committed to delivering enhanced public services, we can expect tax revenue to be raised in two ways: the straightforward increase in tax rates, as already outlined by Labour and the Liberal Democrats, and the reduction of reliefs. Wealthy pension savers only need to consider the restrictions placed on making additions to their funds to see how this approach can be extremely effective.

What do taxpayers need to do?

The new government will need to move rapidly to outline its fiscal plans. The chances are, we can expect another Budget (an emergency one?), bringing the tally up to three this year, so we would do well to remember four things:

First, tax legislation is rarely retrospective. The law now is known – keep calm and carry on. If there is a relief that may be lost – use it now.

Second, do not suffer from Budget fatigue. The next one will take place in the middle of a tax year, so will make 'instant changes' harder to make. April 2018 may be the earliest that new laws can become effective.

Third, pay attention. Chancellors have got into the habit of preannouncing changes that will be introduced over the next few years. It is tricky to remember what happens and when. Taxpayers and their advisers should make sure that they know the changes that will impact them and the timing of their introduction. This provides a chance to prepare.

Finally, governments prefer to dispense with bad news early in their term. If there is a large majority and no likelihood of a further election, expect more aggressive tax policies from day one. A small majority is harder to manage and this can make it more difficult to push through unpopular policies. Where this balance lies will determine how radical any changes are.

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