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Growth Plan 2022 — Issues for corporates: a maximalist mini-Budget

The only thing miniature about Kwasi Kwarteng's mini-Budget on Friday 23 September is the amount left to pay on your tax bill. At least, that's the chancellor's big idea.

Reducing tax bills by cancelling tax policies

Being part of the government's Growth Plan, the mini-Budget was (of course) focused on growth. The intention for tax cuts to drive said growth was front and centre of the day's proceedings.

Many announcements were as expected - including cancellation of the 1.25% NICs rate rise (and cancellation of the 1.25% Health and Social Care Levy which was due to replace it), cancellation of the 1.25% increase in dividend tax rates, and cancellation of the planned increase in corporation tax rates from 19% to 25% (with consequent reversals of the planned changes to the banking surcharge and DPT).

Others were big surprises, including cancellation of the additional rate of income tax* and cancellation of the recent IR35 reforms. The latter means repeal (from April 2023) of the off-payroll working regime. The intention here is more to cut compliance costs (rather than tax take) by shifting employment tax responsibility in relation to workers operating via personal service companies back from the (potential) employer to the (possible) employee. It will be interesting to see the results to the exchequer (and how that balances with savings to business; many, of course, have significant sunk compliance costs already).

Looking at the above, you might think this mini- Budget is 'cancel culture gone mad'. Maybe it is. Even making permanent the £1m annual investment allowance for qualifying expenditure on plant and machinery (a change businesses can be expected to welcome) is the cancellation of a previous tax policy (the AIA having been due to revert to £200,000 in April 2023).

Whilst the mini-Budget seems like a lot of cuts in not a lot of time, it arguably fits into an emerging global trend of trying to stimulate economic recovery (and manage the energy price crisis) through tax reductions on workers and corporates - a theme which the OECD highlights in its recent *Tax Policy Reforms 2022* report. Equally, many may be looking at opinion polls and wondering, however, how long this new 'low-tax policy kick' is going to last. We can expect some taxpayers to already be planning ahead for periods of higher taxation to come.

Steps towards simplicity?

In addition to tax cuts, the government wants to support growth through simplification of the tax system. Abolishing the Office of Tax Simplification - one of the less expected cancellations announced - therefore looks like a counterintuitive step.

But quite often, carefully considered proposals put forward by the OTS have been left as exactly that. Take stamp duty as an easy example. In 2017, the OTS recommended serious consideration be given to combining stamp duty with SDRT (doing away with complexity at the boundary between the two), but as a minimum that stamp duty be digitised and the old stamping machines be retired. It took a global pandemic to make progress on the latter, and whilst there are the beginnings of positive progress on the former, we remain little further forward than we were more than five years ago.

Embedding tax simplification into the institutions of government as proposed, rather than having a separate arm's length body, may therefore be a better way to turn proposals into reality. It will be important, however, to make sure that the technical expertise of the OTS, and a sharp focus on simplification, is not lost. Simplification will be difficult to do for people 'with busy day-jobs', whose work will be driven by their department's particular interests and knowledge-base. And looking to the future (Pillar One and Pillar Two being obvious areas of upcoming complexity), the institutions of government are going to need all the help they can get if they want to keep things simple.

A Budget maximalist in attitude, minimalist on detail

Whilst many of the policies announced on Friday sound simple, they are not complexity free. Keeping the corporation tax rate at 19% sounds easy. But unless substantively enacted before a taxpaying company's

yearend, complications arise around assessment of deferred tax positions. It also means tinkering will be needed to ensure the new capital allowances super-deduction regime works as intended.

Moreover, there are some areas of anticipated fiddly-ness which were touched on only lightly in the mini-Budget. Many will be watching with interest to hear more on the reform of R&D tax reliefs. And whilst repeal of the offpayroll working regime will likely be welcomed by larger businesses who engage contractors, many will wonder how this 'lame-duck' regime will be enforced in practice for the pre-repeal period.

Finally, another recent development prone to complexity is the introduction of the Retained EU (Revocation and Reform) Bill 2022. The Bill will abolish the special status of retained EU Law in the UK and introduce a sunset date (31 December 2023) by which all remaining retained EU Law will either be repealed, or assimilated into UK domestic law. That comes with a clear promise of complexity as government departments scramble to work out how to disentangle their areas of law. Taxpayers will need to watch this closely. Although – having mentioned stamp duty simplification earlier – it would be nice if this (finally) catalysed removal of the 1.5% charge from the statute books instead of everyone having to rely on *HSBC Holdings plc and Vidacos Nominees Ltd v HMRC* (Case C-569/07)!

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** Note that after this article was first published, the government announced that it no longer intends to abolish the additional rate of income tax.*

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