

## THE TAX PLANS OF THE MAJOR PARTIES

Rebecca Sheldon<sup>1</sup>

In advance of what appears to be an imminent general election, I have set out below a summary of the tax changes as so far proposed by the major political parties.

### **Labour's tax plans:**

#### ***Introduction***

Labour's Manifesto for the economy (which can be found at the following link: <https://labour.org.uk/manifesto/creating-economy-works/#second>) begins by stating that:

*"Taxation is what underpins our shared prosperity. All of us, including business, benefit from a healthy, educated and skilled population, with access to basic services and secure housing.*

*We believe in the social obligation to contribute to a fair taxation scheme for the common good. We will take on the social scourge of tax avoidance through our Tax Transparency and Enforcement Programme, and close down tax loopholes.*

#### ***Income tax***

- No rise in income tax for those earning less than £80,000 per year.
- Top 5% of earners will be asked to contribute more.
- The manifesto does not set out the exact rates, but pre the 2017 election it was proposed that there would be a 45% rate between £80,000 and £123,000 and a 50% rate above this. It is claimed that this would raise £7 billion, although this figure takes no account of any change in taxpayer behaviour which might result from the higher rates (for example increased pension contributions or working less hours).

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<sup>1</sup> Rebecca Sheldon, Barrister, Old Square Tax Chambers

### ***National Insurance Contributions***

- Manifesto pledges that “everyone will be protected from increases in NICs.”

### ***Non-domiciled status***

- Pledge to abolish non-domiciled status in Labour’s first budget.
- John McDonnell has said that the present non-dom system offends ordinary people.
- However, it was also suggested that the concept might be retained for those who come to the UK for a limited period of time.

### ***Capital gains tax***

- CGT for 2<sup>nd</sup> homes and investment properties to increase at least in line with income tax.
- Higher CGT rates will apply in general
- This is intended to be 18% and 28% (rather than 10% and 20%) with an 8% surcharge on residential property not qualifying for main residence relief.

### ***Inheritance tax***

- IHT to be abolished, with a lifetime gift tax levied on the recipient instead above £125,000 (linked to the land reform proposals).
- Gifts to be taxed at the same rates as income tax.
- Tax introduced for equity withdrawals.
- Removal of the residence nil rate band would be made as a first step (so nil rate amount back to £325,000), but spousal exemption would remain.

### ***Land reform (primarily from the document “Land for the Many”)***

- Replace Council tax with a progressive property tax paid by owners, not tenants, based on contemporary property values. This would be “*significantly higher*” on 2<sup>nd</sup> homes, empty homes and those owned by non-domiciled individuals (although as outlined above such status is to be abolished!).
- Vacant and derelict residential land would be brought into the progressive property tax to discourage “land-hoarding.”
- Valuations of properties for tax purposes updated annually.
- Empty homes & 2<sup>nd</sup> homes taxed at higher rates “at least” in line with income tax.

- Requirement to have planning permission for holiday homes and furnished holiday lets, renewed every 5 years.
- Surcharge on all properties owned by non-residents, non-domiciled individuals and companies.
- SDLT should be phased out for those planning to buy a home to live in for themselves (but not for 2<sup>nd</sup> homes, empty homes, those purchased by companies and non-domiciled individuals).
- Business rates to be replaced with Land Value Tax, calculated on the basis of rental value of local commercial land.
- Review of tax exemptions given to landowners in the context of farmland.
- Offshore Company Property Tax payable by companies based or beneficially owned in secrecy jurisdictions at 15%.
- Increase in ATED and removal of the exemption for properties under £500,000.

### ***Corporation tax & further issues***

- Move from one of the lowest rates in EU (soon to be 17%) to the 7<sup>th</sup> highest (26%) over a period of 3 years.
- Small profits rates for businesses with profits less than £300,000 at 21%.
- Excessive pay levy (2.5% for earnings over £330,000 and 5% over £500,000).
- Renationalising railways, Royal Mail, energy and water companies.
- Inclusive ownership fund for the benefit of employees, which would be set up to hold a maximum of 10% of the share capital of any company with more than 250 staff.

### ***VAT***

- Labour Manifesto outlines commitment to not extend VAT.

### ***Tax transparency (taken from the “Tax Transparency programme”)***

- *“Most comprehensive effort...to end scourge of tax avoidance.”*
- Preferred creditor status for HMRC.
- Closing the Eurobond loophole, whereby securities on the stock exchanges of the Channel Islands are exempt from withholding tax.
- Umbrella agencies clampdown.
- Review of advance thin capitalisation agreements.

- Tax avoidance by means of incorporation to be tackled on the basis that the difference between corporate tax rates and personal tax rates is too great.
- Close the “Mayfair” tax loophole.
- Creation of a specialised tax enforcement unit.
- A full public register of trusts.
- Public filing of tax returns of wealthy individuals earnings more than £1 million.
- An allegedly more effective GAAR.

### ***Privilege & sanctions***

- Announcement by John McDonnell to reform the concept of professional privilege to “*prevent firms and individuals from becoming enablers.*” This overlooks the point that this rule is for the benefit of the public and any erosion of it would undermine the fairness of the legal system.
- Plans to criminalise tax advisors who “*devise and promote and sell*” schemes.

### ***Private schools***

- Removal of private school charitable status.

## **The Conservative party’s tax proposals?**

### ***Introduction***

- Conservative manifesto begins with:

*“A strong economy built on sound public finances, low taxes, better regulation and free trade deals with markets around the world.”*

### ***Income tax & NICs***

- Raise the higher rate of income tax to £80,000.
- Raise the ceiling for NICs to absorb some of this.
- The idea is to fund this from “fiscal headroom” of £26.6bn but long-term the measure would be likely to lead to increased tax elsewhere to fund it.

### ***Corporation tax and other issues***

- Due to fall to 17% by 2020.
- Review of business rates system.

- Further incentives under EIS and SEIS schemes.

### **VAT**

- No increases in levels of VAT (note slight difference in wording to that in 2015, when it was stated that there would be “no increases in VAT”).

### ***Tax compliance***

- More pro-active approach to transparency and misuse of trusts.
- Improve policing of border (in particular when UK leaves the EU).
- Further (undetailed) measures to reduce online VAT fraud.

## **The Liberal Democrat party’s proposals (from 2015)**

### ***Introduction***

- Summary of Liberal Democrat manifesto for tax:  
*“Reform the tax system to help businesses invest, rebalance the economy, properly fund our public services and ensure the wealthy and multinationals pay their fair share.”*

### ***National insurance contributions***

- Raise the employee National Insurance threshold to the Income Tax threshold, while protecting low earners’ ability to accrue pension and benefit entitlements.

### ***Reversal of several conservative policies:***

- Corporation Tax to be increased to 20% in place of the 17% rate.
- Capital Gains Tax Cuts to be reversed (so presumably rates restored to 18% and 28%).
- The Marriage Allowance to be withdrawn.
- The raising of the Inheritance Tax Threshold (presumably the RNRB) to be withdrawn.

### ***Tax transparency***

- Introduction of a GAAR (presumably a more effective GAAR as this has already been introduced).

***Corporation tax & other issues***

- Reforming Corporation Tax to develop a system that benefits the smallest companies while ensuring the biggest multinationals cannot avoid paying sums comparable to nationally based competitors.
- Consultation on shifting away from a profits-based tax to one that takes account of a wider range of economic activity indicators, such as sales and turnover (this is known as a destination-based tax and in my view cannot sensibly be implemented unless a similar tax is widely adopted by other countries).
- Reviewing the Business Rates system, prioritising reforms that recognise the development of the digital economy, lessening the burden on smaller businesses, and ensuring high streets remain competitive.

***Land tax***

- Similar to Labour, considering implementation of Land Value Taxation.