Executive summary

In his speech of 13 March 2018, the United Kingdom (UK) Chancellor confirmed his plans that major tax or spending changes would now be made only once a year - at the Budget in the Autumn.

The Spring Statement is intended to:
- Give an update on the overall health of the economy and the Office for Budget Responsibility (OBR) forecasts
- Provide an assessment on progress made since Autumn Budget 2017
- Launch further tax consultations for discussion over the Summer

This Alert highlights the key new tax developments, and also provides a brief summary of other consultations and calls for evidence.

Detailed discussion

Updated position paper on taxing the digital economy

The Government has issued an updated position paper on corporate tax and the digital economy which builds on the original paper published as part of the Autumn Budget. The updated paper sets out the Government’s view that:
The participation and engagement of users is an important aspect of value creation for certain digital business models and is likely to be reflected through several channels, such as the provision of content or as a contribution to certain intangibles such as brand.

The preferred and most sustainable solution to this challenge is reform of the international corporate tax framework to reflect the value of user participation. The paper sets out some of the Government’s initial thinking on developing multilateral solutions.

In the absence of international reform, there is a need to consider interim measures, such as revenue-based taxes. The paper explores some of the important considerations regarding the scope and design of an interim measure, and the steps that could be taken to ensure that such a measure is targeted and protects start-ups and growth companies. The Government thinks there are benefits to implementing an interim measure on a multilateral basis and intends to work closely with the European Union (EU) and international partners on this issue. The EU and Organisation for Economic Co-operation and Development are expected to provide further details on the approach in the coming weeks.

While this is essentially the same position as that set out in the original position paper, the Government now goes into more detail on how this can be achieved and the challenges in doing so. However, the paper does not set out the Government’s final position on these issues. Instead it sets out the Government’s updated thinking, with a view to engaging further with businesses and other stakeholders to better understand and resolve some of the outstanding questions.

Stakeholders are still able to contribute to the debate by providing feedback on this updated paper. No formal deadline has been set for the receipt of responses. We have been helping businesses engage with HM Treasury on this either through meetings with HM Treasury or written responses.

The role of online platforms in ensuring tax compliance by their users

Online platforms enabling the sale and rent of goods and services online are growing intermediaries in the UK economy. The Government has launched a call for evidence to explore how it can build on work already undertaken with online marketplaces (such as in the Value Added Tax (VAT) arena). The Government is principally interested in platforms that facilitate the sharing economy (e.g., by allowing people to earn money from resources they are not constantly using, such as cars or spare rooms), facilitate the gig economy (e.g., by allowing people to use their time and resources to generate income) or connect buyers with individuals or businesses offering services or goods for sale. The work will initially consider platforms that host transactions through which users could incur a tax liability rather than those trading their own goods or services through their own website, and will focus on direct tax in the first instance. Responses are due by 8 June 2018.

The Government wants to understand how platforms interact with their users currently, what they know about them, and understand more about attitudes to tax among people earning money through platforms (with a view to ensuring that those people understand and meet their tax obligations). It is also interested in views on ways that online platforms create new opportunities for individuals or businesses to deliberately avoid paying tax as well as on further opportunities for platforms to work together with HM Revenue & Customs (HMRC) to help users understand and meet their tax obligations.

The call for evidence notes that the Taylor Review of modern employment practices also has connections to this work. Part of the Government’s response to the Taylor Review included a consultation on employment status. This looks at providing clarity as to the rights of people, particularly those working through digital platforms in the gig economy. The Taylor Review also examines whether the rules around working time for national minimum wage and national living wage purposes for workers can be made simpler and easier to enforce.

**VAT and indirect taxes: consultations and responses**

**VAT registration threshold**

A call for evidence to explore the design of the VAT registration threshold has been published. This follows on from the review of VAT by the Office of Tax Simplification (OTS), which was published late last year. The OTS’s review found that the relatively high UK VAT registration threshold, currently set at £85,000, had a distortionary impact on business growth. The OTS recommended that the Government should examine the current approach to the level and design of the VAT registration threshold with a view to setting out a future direction of travel.
This latest call for evidence explores the effect of the current VAT registration threshold on smaller businesses and considers alternative options and whether those options could better incentivize growth. It also provides a summary of the European Commission’s recently published the Small and Medium Enterprise (SME) VAT proposal which is not due to be implemented until July 2022, acknowledging that the UK position in this respect will be determined by negotiations once the UK has left the EU. This is a great opportunity for SMEs and other interested parties to put their views forward on the design of the UK’s VAT registration threshold. The deadline for responses is 5 June 2018.

Alternative method of VAT collection – split payment
A new consultation, following on from the previous call for evidence on the VAT split payment mechanism, seeks views on potential options for a split payment mechanism.

The expansion of e-commerce poses a significant challenge for tax authorities as a result of some businesses failing to charge VAT on sales of goods to online consumers. To address this issue, the UK was the first country to introduce joint and several liability rules to hold online marketplaces liable for the unpaid VAT of sellers on their platforms. However, the Government wants to go further in combatting online VAT fraud, by utilizing payments industry technology to collect VAT on online sales by transferring the VAT due on sales directly to HMRC. The Government considers that this would significantly reduce the challenge of enforcing online seller compliance and offer a simplification for businesses.

This consultation also looks to assess further the overall viability of split payment by seeking the views of a wider range of stakeholders. In particular, it seeks to identify which party is best placed to perform the split of the VAT from the gross payment. HMRC will be running a series of collaborative workshops to test emerging views over the spring and summer of 2018 and invites interested parties to contact them. The closing date for comments is 29 June 2018.

VAT, air passenger duty (APD) and tourism in Northern Ireland
This consultation, which closes on 5 June 2018, seeks evidence that demonstrates the significance of any impacts that VAT or APD have on tourism, or that helps show how the use of these taxes might support the growing success of the sector in Northern Ireland.

Tax treatment of heated tobacco products
This consultation response indicates the Government’s intention to create a new excise category for heated tobacco products.

The Chancellor’s speech also referred to a call for evidence on whether the use of non-agricultural red diesel tax relief contributes to poor air quality in urban areas and a consultation on reduced vehicle excise duty rates for the cleanest vans.

Employment and personal taxes: consultations and responses
Taxation of self-funded work-related training
This consultation looks at the objectives and design criteria for extending tax relief for training of employees and the self-employed. The aim is that a mix of complementary policies involving direct spending and taxation will help ensure individuals can access the skills necessary for the future. The deadline for responses is 8 June 2018.

Allowing Entrepreneurs’ Relief (ER) on gains made before dilution
ER can reduce the capital gains tax rate on a sale of shares in a private company to 10% on gains up to a lifetime limit of £10m. The consultation is aimed at assisting individuals whose shareholding is diluted by an injection of new capital into the company such that they no longer meet the 5% holding required to qualify for ER on any gain up to that date. Under the proposals such individuals would be able to elect to crystallize a gain immediately before dilution, so as to benefit from ER. It would also be possible to elect to defer the gain until such a time as the shares are sold, to prevent a dry tax charge. The election will only be available to individuals and not to trustees with qualifying holdings which may be diluted. It will be a condition of the election that the issue of shares by the company be part of a commercial scheme or arrangement which has as its main purpose, or one of its main purposes, the obtaining of capital as new consideration subscribed for the issue of new shares. Responses are due by 15 May 2018.
Enterprise Investment Scheme knowledge-intensive fund consultation

With the aim of promoting high-growth and innovative investment, the Government is consulting on creating a fund structure within the Enterprise Investment Scheme for investment in innovative knowledge-intensive companies. The consultation closes on 11 May 2018.

Other consultations and developments

Reducing single-use plastic waste through the tax system: A call for evidence (closing on 18 May) will explore how changes to the tax system or charges could be used to reduce the amount of single-use plastic waste. Aims include reducing unnecessary production, increasing reuse and improving recycling. The Government would also like to explore how to drive innovation in this area to achieve those outcomes and will look across the whole life-cycle of single-use plastics. In his speech, the Chancellor made it clear that any tax measures would not be introduced as a way of raising revenue but as a way of changing behavior.

Cash and digital payments in the new economy: A call for evidence (closing on 5 June) looks at how the transition from cash to digital payments impacts on different sectors, different regions and different demographics. It explores how the Government can support digital payments and ensure that the ability to pay by cash is available for those who need it, while cracking down on the minority who use cash to evade tax and launder money.

Extension of security deposit legislation: With effect from April 2019 the current scope of the security deposit legislation (which requires high risk businesses to provide an upfront security deposit where HMRC believes there is a risk to the revenue) will be extended to include corporation tax and Construction Industry Scheme deductions. The consultation includes HMRC’s proposals for implementing this change to ensure that it is introduced in the most effective way, that the legislation is targeted, and that there are appropriate safeguards. The consultation closes on 8 June 2018.

Business rates

Autumn Budget 2017 had already announced that business rates revaluations would take place every three years, rather than every five years, following the next revaluation. The Spring Statement brings forward that next revaluation by a year to 2021. The three-year revaluation then commences in 2024.

Consultations and responses still to come

The following documents are expected to be published in the coming months.

Growth and productivity

Improving business productivity - The UK’s Department for Business, Energy and Industrial Strategy (BEIS) will publish a call for evidence to understand how best the Government can help the UK’s least productive businesses to learn from, and catch-up with, the most productive.

Delivering a fair payment culture for small businesses - BEIS will launch a call for evidence on how to eliminate unfair payment practices to small businesses.

Prompt payment by Government suppliers - the Cabinet Office will launch a consultation on making a supplier’s approach to payments to its own suppliers part of the selection process for larger Government contracts.

Transferable Tax History (TTH) for oil and gas - a consultation on draft legislation to introduce a TTH for oil and gas companies, to encourage new investment in UK oil and gas fields.

Petroleum Revenue Tax (PRT) deduction for decommissioning costs - a consultation on draft legislation to allow a PRT deduction for decommissioning costs incurred by a previous license holder, to encourage investment in UK oil and gas fields.

Green growth

Red diesel use in non-agricultural, non-road mobile machinery - a call for evidence into whether the use of red diesel tax relief discourages the purchase of cleaner engines. The primary focus of this call for evidence will be on improving air quality outcomes, particularly in urban areas. Red diesel for agricultural use will be outside the scope of the call for evidence, as will home heating use and other static generators.

Reforming vehicle excise duty (VED) rates for vans - a consultation on reducing VED rates for the cleanest vans through creating a graduated first year rate, as is already in place for cars, to encourage cleaner choices and improve environmental outcomes.
Tax avoidance, evasion & non-compliance

- **Off-payroll working** - a consultation on how to tackle non-compliance in the private sector, drawing on the experience of the public sector reform. The Government will work with businesses and individuals to mitigate the potential administrative burdens of any future changes.

- **Tackling corporate insolvency and “phoenixism” risks** - a discussion document exploring further means for tackling the small minority who deliberately abuse the insolvency regime in trying to avoid or evade their tax liabilities, including through the use of phoenixism (the practice of carrying on the same business or trade successively through a series of companies where each becomes insolvent in turn).

- **Tackling construction sector supply chain fraud** - a technical consultation on draft legislation for a VAT reverse charge. This will help to eliminate the threat of “missing trader” fraud in construction industry supply chains, which is where the supplier retains the VAT that it collects on its sales. The reverse charge will achieve this by shifting responsibility to the customer for paying VAT to HMRC where the customer is a VAT-registered construction business.

- **Profit fragmentation** - a consultation on the best way to prevent UK traders or professionals from avoiding UK tax by arranging for UK trading income to be transferred to unrelated foreign entities.

Other/maintaining the tax system

- **Gaming Duty: review of accounting periods** - a consultation to seek views on bringing the administration of gaming duty more into line with the other gambling duties.

- **Short term business visitors** - a consultation on how to simplify the tax treatment of short-term business visitors from the foreign branch of a UK company, to ensure the UK is an attractive location to headquarter a business.

- **Capital gains tax payment window** - a technical consultation on the design of the system requiring capital gains tax due on a disposal of residential property to be paid within 30 days of completion.

- **VAT and vouchers** - a response to a consultation on changes to the VAT treatment of vouchers. This change will amend VAT law to ensure that when customers pay with vouchers, businesses account for the same amount of VAT as when other means of payment are used.

- **Taxation of trusts** - a consultation on how to make the taxation of trusts simpler, fairer and more transparent.

- **Large business compliance** - a response to the consultation into HMRC’s process for risk-profiling large businesses, to improve HMRC's Business Risk Review process, reflecting and further enhancing the shift in large business compliance behaviors.

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EYG no. 01527-181Gbl
1508-1600216 NY
ED None

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