What tax changes are the two major parties proposing?

We are now just a matter of days away from the General Election, which if the polls are anything to go by, is gearing up to be a close and exciting affair. Whilst Brexit remains the hot topic, a change of government could also signal a substantial change to the country's tax system.

This briefing note summarises the parties' respective tax policies, reforms and new initiatives that may be of concern or interest to high net worth individuals/families and their advisors.

Labour

Labour's manifesto pledges to create a "fairer tax system" under which they will be "asking for a little more from those with the broadest shoulders…". A Labour government would in fact signal a dramatic change to the current tax system. Their proposed changes found in their manifesto and supporting "Fair Tax Programme" and costing document "Funding Real Change", span from increased tax rates, lower thresholds for some taxes, and substantial reform to current transparency, anti-avoidance and evasion laws and regimes.

Significant changes to tax types and rates

Income Tax

Labour's costing document, Funding Real Change, undertakes to drastically lower the threshold for the additional tax rate of 45% from £150,000 to £80,000. It also says it will introduce a "Super-Rich Rate" of 50% payable from £125,000.

CGT

Under Labour, CGT would be taxed at income tax rates. In most cases this would represent a sharp increase from current rates, under which the highest rate is 28% for residential property gains above £31,866. They would also abolish the lower rate for dividends, meaning that these too will be taxed at income tax rates. The CGT exemption for primary residences will remain in place.

Labour would remove the trading exemption for foreign investors involved with commercial property and replace it with an exemption targeted at small investors with a £1 million limit.

Corporate Tax

For corporation tax, which currently sits at 19%, if elected the Labour government intend to incrementally increase this to 21% for small profits and 26% for the main rate. Their plan is to raise the main rate to 21% from April 2020, to 24% in 2021 and then up to 26% a year later. The small profits rate (for profits under £300,000), would stay at 19% for 2020, and then increase by 1% for each of the following two tax years.

Entrepreneurs Relief

The Funding Real Change document alleges that Entrepreneurs Relief in its current form cannot continue, as such Labour intend to scrap it all together and then consult on a better form of support for entrepreneurs.

Inheritance tax (IHT) rates

Prior to the release of their manifesto, there was concern that Labour would scrap IHT and replace it with a “lifetime gifts” levy with a tax-free allowance of just £125,000. This was drawn from their 2017 election manifesto, where it also held that for amounts above the threshold, they would be taxed at income tax rates. Their 2019 manifesto has adopted a softer approach, only referring to the removal of the current main residence nil-rate band (the additional £150,000 on top of the £325,000 nil rate band that applies to some estates in respect of the main home).

Non-domiciled tax status

A Labour Government will scrap the status altogether in their first Budget and consult on whether there is a need for an exception for foreign residents in the UK for a short period of time. This would represent a significant departure from a tax basis that has been a longstanding feature of the UK tax system.

Transparency and Cross-Border Action

Offshore company property levy

Corbyn’s Fair Tax Programme proposes introducing an additional charge of 20% on purchases by offshore companies and trusts of UK residential property, supplementary to existing stamp duties.

Public register of trusts

Labour have stated that they will further expand the scope of the Public Register of Trusts (which is already set to be widened by the 5th AMLD) by removing the condition that access is limited to those with a “legitimate interest”. Under the current government’s proposals, the register would not be accessible to the general public.

Beneficial ownership register

The Fair Tax Programme holds that they will strengthen the register by reducing the threshold for disclosure of shareholders to include all shareholders, as opposed to just those who hold over 25% of shares. Overseas companies will not be permitted to be a director of a UK company without meeting UK transparency standards.

Tax Returns

Large company tax returns: All large companies (using the definition from the Companies Act 2006) will have to file their tax returns publicly at Companies House.

Wealthy individuals: Drawing from systems in place in Scandinavian countries, Labour will make the tax returns of “wealthy individuals” publicly available. They define “wealthy individuals” as those earning over £1 million.

Transparency in Crown Dependencies and Overseas Territories

Labour have promised they will help these jurisdictions to implement public registers for beneficial ownership and to provide capacity building support for increased financial transparency.

Advance Thin Capitalisation Agreements

Labour will carry out a review of these types of agreements with the aim of drastically reducing the number.

Tax Havens

Labour have promised to establish a list of tax havens, essentially a ‘black list’ similar to those used by the OECD, the EU, France and Portugal. Sanctions will be imposed against those countries on the list to try and discourage the use of low or no-tax systems. In addition to this, Labour will consider the introduction of a withholding tax against dividends, royalties and interest paid out to individuals and companies in those so-called tax havens.

Anti-Avoidance and Enforcement

Labour have said they will launch a 9-month public inquiry into common tools for avoidance and evasion. This will include a review of offshore trusts and whether distributions should be taxed or a withholding tax applied. In addition to this, Labour have said they will carry out the following measures (amongst others):

General Anti-Avoidance Rule

They will replace this rule with a wider reaching one which will remove the second layer of the current "double reasonableness" test.

"Enablers" of tax avoidance and evasion

"Enablers", which they define as accountants, auditors, lawyers, and other professionals, will face harsher penalties where they are promoting tax avoidance and evasion. Labour will consult on and consider extending the ambit of the Suspicious Activity Regime and whether legal professional privilege is being used to facilitate tax avoidance and evasion.

Resourcing HMRC

Labour have said they will set up an intelligence-led taskforce to make recommendations about consolidating HMRC as "a significant and essential part of the core machinery of government". Further to this, they are looking to increase the number of audits by 200,000 across a ten-year period, as well as restoring their previous position as a preferred creditor.

Conservatives

The Conservatives have in contrast signalled they have no plans for significant tax reform, with much of the status quo retained under their manifesto and costing document.

The previously announced reduction of **corporate tax** to 17% has been scrapped**,** so the current rate of 19% will instead remain. Their manifesto admits that Entrepreneur's Relief has not delivered on its objectives, so they propose to carry out a review and reform rather than abolish.

They have made a promise not to raise the rates of **income tax, National Insurance or VAT**.

The Conservatives, like Labour, plan to step up their **tax avoidance and evasion** efforts. Among other measures, this will include doubling the maximum prison sentence for tax fraud; establishing a dedicated anti-tax evasion unit in HMRC; and targeting profit-sharing by multinational companies.

The Conservative Party unveiled plans in November for a 3% **stamp duty surcharge** for non-UK tax residents which would apply to companies as well as individuals (including returning expats). It is understood this surcharge would apply to the existing 3% surcharge on acquisitions where a purchaser already owns a property anywhere in the world.

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