

Tax policies and consultations

Spring 2021



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Presented to Parliament by
the Financial Secretary to the Treasury
by Command of Her Majesty

March 2021



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ISBN: 978-1-5286-2495-4

PU: 3103

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Foreword

Budget 2021 set out the steps which the government is taking to assist the UK's recovery from the COVID-19 pandemic, while continuing to support people and businesses, lives and livelihoods.

But HM Treasury and HMRC continue to lay the foundations for the longer term. Accordingly, this command paper and its accompanying documents are designed to enhance the stability and effectiveness of the UK tax system, by outlining a future pathway for its tax administration and tax policy development.

In July 2020, the government announced its 10-year tax administration strategy, through the publication of 'Building a trusted, modern tax administration system'. This set out a strategy to improve the resilience and effectiveness of the UK's tax administration system over the next decade, keeping pace with rapid social, economic and technological change.

These improvements will underpin a trusted and modern tax system, which works closer to real time. Such a system will enable people and businesses to pay the right tax with ease. It will be more adaptable and responsive to the economy, and it will help to deliver more sustainable public finances, by reducing the tax gap.

At present the tax gap stands at a record low of 4.7%. But there is scope to reduce it still further, for example by removing sources of error, and by more work to tackle tax avoidance, evasion and other forms of non-compliance.

To achieve these goals, the 10-year strategy outlined a series of reforms. The measures set out here will shape the next steps in delivering this strategy, and include a range of policy announcements and updates which will support wider improvements in the tax system.

In addition to the tax administration reforms set out here, this publication takes forward policy development across a range of important tax issues, including business rates and environmental taxes, as well as a range of simplification measures. It provides updates on existing consultations and policy development, and announces consultations on new areas of work.

But this overall approach is itself intended to be something of a reform. By announcing these measures and consultations separately from the Budget, we are seeking to create greater visibility and transparency for Parliamentarians, tax professionals and other stakeholders. We hope that increased scrutiny of tax measures will increase the overall quality of tax policy and legislation, on which millions of taxpayers ultimately rely.

With this command paper, then, the government is refining its approach to developing tax policy. We will work with stakeholders in the months ahead to assess their views of its impact and effectiveness, before considering whether and how it might become a longer-term change and be incorporated into the tax policy-making framework.

To that end, we would welcome views and feedback both on the content of these announcements, and on the wider approach of which they are part.

A handwritten signature in black ink, reading "Jesse Norman". The signature is fluid and cursive, with the first name "Jesse" written in a larger, more prominent script than the surname "Norman".

Rt Hon Jesse Norman MP

Financial Secretary to the Treasury

Chapter 1

Modernising tax administration

Delivering the Tax Administration Strategy

- 1.1 In line with the rapid changes taking place in society, the economy and technology, the government's 10-year tax administration strategy 'Building a trusted, modern tax administration system'¹ sets out how HMRC will deliver the flexible, resilient and responsive tax system the UK will need in the years ahead. The strategy focuses on delivering a fully digital tax system that works closer to real time, is fair and builds trust – allowing taxpayers to pay the right tax with ease as they live their lives and go about their business.
- 1.2 **Making Tax Digital (MTD)** – MTD is the first phase of a modern, digital tax service. After the successful introduction in April 2019 of MTD for VAT for businesses with a taxable turnover above the VAT threshold, the government announced an extension to MTD as part of the tax administration strategy. Legislation to enable the extension of MTD to smaller VAT registered businesses from April 2022 was introduced in Finance Bill 2021. As previously announced, the government intends to legislate later this year to extend MTD to Income Tax Self Assessment from April 2023. Alongside this command paper, the government is also publishing new research which demonstrates a range of benefits to businesses that have already started using MTD.
- 1.3 **HMRC: investment in digital infrastructure** – At Budget 2021,² the government announced investment of £95m in HMRC to deliver new digital technology needed to help build a trusted, modern tax administration system. This funding will allow development of a single digital account and single customer record. These integrated accounts will be available to everyone, allowing them to view and engage with all their tax affairs in one place. The content will be based on individual needs rather than using generic one-size-fits-all material. HMRC will increasingly deliver services centred around each individual or business, rather than a series of interactions with separate taxes and will engage with taxpayers and stakeholders on the design of these services. This will include, in the first phase of the account, new 'once and done' tax registration and change of circumstances services.
- 1.4 This funding will also allow HMRC to develop services that will enhance their ability to collect and receive payments, helping taxpayers to budget and

¹ [Tax Administration Strategy](#), HM Revenue & Customs and HM Treasury, July 2020

² [Budget 2021](#), HM Treasury, March 2021

manage their finances. This includes expanding the Self-Serve Time to Pay service to more taxes, after its success in supporting taxpayers during the peak of Self Assessment payments made in 2021.

- 1.5 **Tax administration framework review** – The government is publishing a call for evidence on the tax administration framework, covering the core legislation, processes and guidance which underpin obligations for HMRC, taxpayers, agents and third parties. The call for evidence will explore how to make tax more straightforward to pay and harder to get wrong, improve people’s experience of the tax system, and build and maintain trust between HMRC and taxpayers.
- 1.6 **Timely Payment** – The government is publishing a call for evidence to begin to explore the opportunities and challenges of more frequent payment of income tax within Income Tax Self Assessment, and of corporation tax for small companies, based on in-year information.
- 1.7 **Raising standards in the tax advice market** – The government is publishing a consultation on raising standards in the tax advice market, following a call for evidence in 2020.³ This will seek views on the definition of tax advice and a requirement to make professional indemnity insurance compulsory for all tax advisers, with a view to improving tax advice and providing taxpayers with better access to redress where they have received bad advice.
- 1.8 **Reducing inheritance tax reporting requirements** – Following recommendations by the Office of Tax Simplification,⁴ the government will reduce administrative burdens for those dealing with inheritance tax. Reporting regulations will be simplified later this year so that from 1 January 2022 over 90% of non-taxpaying estates each year will no longer have to complete inheritance tax forms for deaths when probate or confirmation is required. In addition, the current temporary provision for those dealing with a trust or estate to provide an inheritance tax return without requiring physical signatures from all those involved will be made permanent. Reporting regulations will also be updated to clarify the requirement for estates to submit an inheritance tax account where the deceased was never domiciled in the UK but owned indirect interests in UK residential property.

³ [‘Call for evidence: raising standards in the tax advice market’](#), HM Revenue & Customs, March 2020

⁴ [‘Inheritance Tax Review’](#), Office of Tax Simplification, November 2018

Chapter 2

Tackling non-compliance

- 2.1 The government is committed to clamping down on deliberate non-compliance, as well as supporting taxpayers to get their tax right first time, in order to tackle the tax gap. As well as making further progress with the tax administration strategy, these consultations will lay the foundations for future measures to drive down non-compliance in different forms.
- 2.2 **Clamping down on promoters of tax avoidance** – As announced in November 2020,¹ the government is publishing a consultation on a package of measures to clamp down on promoters of tax avoidance. Proposals include ensuring HMRC can protect their position by securing or freezing a promoter’s assets so that the penalties they are liable for are paid, tackling offshore promoters and the UK entities that support them, closing down companies that promote avoidance schemes and disqualifying their directors, and supporting taxpayers to identify and exit avoidance schemes. This package of measures builds on the Promoters Strategy,² announced at Budget 2020, and the measures to strengthen existing anti-avoidance regimes which were consulted on over the summer³ and will be legislated for in Finance Bill 2021. HMRC is also publishing draft technical guidance on the package of measures being legislated for in Finance Bill 2021.
- 2.3 **Tackling disguised remuneration tax avoidance** – The government is publishing a summary of the responses to the 2020 call for evidence.⁴ Disguised remuneration schemes are contrived arrangements to avoid tax by paying people amounts that appear to be non-taxable (e.g. “loans”) in place of a salary. The call for evidence exercise was part of the government’s response to the recommendations in the Independent Loan Charge Review.⁵ The summary of responses document will also set out the government’s next steps.
- 2.4 **Off-payroll working rules** – The government is publishing external research into the impact of the 2017 public sector reform of the off-payroll working rules on the education sector and on employment agencies. This follows a commitment to commission research into the long-term effects of the reform in the public sector, and publish the findings ahead of the introduction of the reform in the private and voluntary sectors in April 2021.

¹ [‘Written Ministerial Statement: Tax Policy Update’](#), HM Treasury, Nov 2020

² [‘Tackling promoters of mass-marketed tax avoidance schemes’](#), HM Revenue & Customs, March 2020

³ [‘Consultation: tackling promoters of tax avoidance’](#), HM Revenue & Customs, July 2020

⁴ [‘Call for evidence: tackling disguised remuneration tax avoidance’](#), HM Revenue & Customs, July 2020

⁵ [‘Disguised remuneration: independent loan charge review’](#), HM Treasury and HM Revenue & Customs, September 2019

Due to pressures from the COVID-19 pandemic, the response rate from some parts of the public sector was too low to produce robust quantitative results, so these parts of the research were paused. The government intends to publish further research later in 2021.

2.5 No Safe Havens – The ‘No Safe Havens’⁶ strategy outlines how HMRC will ensure taxpayers comply with their UK tax obligations regardless of where their income or gains are made. The strategy focuses on assisting taxpayers to comply and responding appropriately if they do not. As part of implementing the strategy, the government is publishing two discussion documents to inform future policy measures:

- **Helping taxpayers get offshore tax right** which seeks views on ways to help taxpayers get their offshore tax right first time.
- **Preventing and collecting international tax debt** which seeks views on better ways to prevent and collect international tax debt.

2.6 Tax Conditionality: licensing in Scotland and Northern Ireland – As announced at Budget 2021, the government is publishing a consultation on how to make the renewal of certain licences in Scotland and Northern Ireland conditional on applicants completing checks that confirm they are appropriately registered for tax from April 2023. This will be developed through continued engagement with the devolved administrations and is consistent with reforms, introduced in Finance Bill 2021, which come into force in England and Wales in April 2022. Licensing bodies will have to obtain confirmation that an applicant has completed the check before deciding on their renewal application, making it more difficult for traders to operate in the hidden economy. The government remains committed to seeking views on the wider application of tax conditionality.

2.7 Sanctions for illicit tobacco – The government recently consulted on introducing tougher and more effective sanctions to tackle tobacco duty evasion and disincentivise the sale of illicit tobacco.⁷ The government will publish a summary of responses in the summer and intends to publish draft legislation on these tougher sanctions at Legislation Day for inclusion in Finance Bill 2021-22.

⁶ [‘No Safe Havens’](#), HM Revenue & Customs and HM Treasury, March 2019

⁷ [‘Consultation: sanctions to tackle tobacco duty evasion’](#), HM Revenue & Customs, December 2020

Chapter 3

Further tax policy announcements

- 3.1 The tax system needs to reflect wider economic, social and policy change in order to ensure it remains effective. The announcements in this section open new consultations on areas where the government is considering reform, set out next steps on work under way, and report back on recent work that has explored potential changes.
- 3.2 **Fundamental review of business rates** – The government is publishing an interim report, including a summary of responses received to the call for evidence for the fundamental review.¹ The document covers the contributions received across the scope of the review, including the overall level of the tax, revaluations, administration and billing, and alternatives to business rates. The fundamental review will conclude in the autumn.
- 3.3 **Aviation tax** – The government is publishing a consultation to consider how Air Passenger Duty (APD) could support Union and regional connectivity, alongside the commitment to reach net-zero emissions by 2050. This follows the government stating its intent to consult at Budget 2020. The consultation sets out the government’s current approach to taxing the aviation sector, via APD, before going on to seek views on the government’s initial position that the effective rate of APD on domestic flights should be reduced and the potential options through which this could be achieved. It also seeks views on a potential increase to the number of distance bands, in order to align the tax more closely with the government’s environmental objectives and to help fund any reduction in domestic APD.
- 3.4 **Strengthening the self-catering accommodation criteria for business rates** – The government will legislate to change the criteria determining whether a holiday let is valued for business rates to account for actual days the property was rented, following a previous consultation.² This will ensure that owners of properties cannot reduce their tax liability by declaring that a property is available for let while making little or no actual effort to do so. Further details of the change and implementation will be included in the Ministry for Housing, Communities and Local Government’s (MHCLG) response to the consultation on the business rates treatment of self-catering accommodation which will be published shortly.
- 3.5 **Review of the Office of Tax Simplification (OTS)** – The government will conduct a review of the effectiveness of the OTS as required by Finance Act

¹ [‘HM Treasury fundamental review of business rates: call for evidence’](#), HM Treasury, July 2020

² [‘Consultation: business rates treatment of self-catering accommodation’](#), Ministry of Housing, Communities and Local Government, November 2018

2016. This review will examine the effectiveness of the OTS in providing advice and recommendations on simplifying the tax system.

- 3.6 Residential property developer tax** – The government will publish a consultation on a new tax on the largest residential property developers following the 10 February announcement by the Secretary of State for Housing, Communities and Local Government.³ The tax will be introduced in 2022 to help pay for the costs of cladding remediation. The consultation will be published in the coming months.
- 3.7 Dormant Assets Scheme expansion** – The government will make changes in a future Finance Bill to facilitate the inclusion of the asset groups that will be in scope of the expanded scheme. This relates to Capital Gains Tax and pensions tax legislation.
- 3.8 Pensions tax technical updates** – The government is finalising the remedy for the age discrimination found in the 2015 public service pension reforms (the ‘McCloud case’). In the process of designing the remedy, the government has identified several aspects of the pension tax framework that do not work as intended in all situations and need updating to deal properly with cases of this type. For example, the current framework does not straightforwardly permit individuals to ask their pension scheme to settle annual allowance charges from previous tax years by reducing their future pension benefits (‘Scheme Pays’). The government will therefore make technical updates to pension tax rules to remove such anomalies.
- 3.9 Tax treatment of Superfunds** – The government will be reviewing the appropriate taxation framework for Superfunds, which are consolidation vehicles for defined benefit pension schemes. This work will proceed alongside the work under way on the development of the appropriate regulatory regime. This is an innovative area and it should not be assumed that the tax regime that currently applies to entities and transactions in the Superfund structure or the pension schemes that have transferred to the Superfund will remain unchanged. The government’s approach will be informed by the features of the permanent regulatory regime.
- 3.10 Taxation of trusts** – The government is publishing a summary of responses to the 2018 consultation ‘The Taxation of Trusts: A Review’.⁴ The responses did not indicate a desire for a comprehensive reform of trust tax at this stage. The government will keep the issues raised under review.
- 3.11 Aggregates Levy** – The government is publishing a consultation on aggregate removed during construction works. The government stated its intention to consult after stakeholders raised issues during the 2019 Aggregates Levy review.⁵
- 3.12 Landfill Tax review** – The government will review aspects of the Landfill Tax in England and Northern Ireland in due course, following engagement with

³ [‘Government to bring an end to unsafe cladding with multi-billion pound intervention’](#), Ministry of Housing, Communities and Local Government, Feb 2021

⁴ [‘The Taxation of Trusts: A Review’](#), HM Revenue & Customs, November 2018

⁵ [‘Review of the Aggregates Levy’](#), HM Treasury, March 2019

stakeholders in the meantime. This will ensure the tax continues to support the government's ambitious environmental objectives.

- 3.13 Carbon Emissions Tax (CET)** – The government is publishing the summary of responses to its consultation on the CET⁶ which closed in September 2020. The government is not taking forward the CET in light of the announcement that it would implement a UK Emissions Trading System to replace its participation in the EU Emissions Trading System.
- 3.14 Notification by large businesses of an uncertain tax treatment** – As announced in November 2020,⁷ implementation of the requirement for large businesses to notify HMRC of uncertain tax treatments has been delayed by 12 months to April 2022. The government is publishing a summary of responses to the previous consultation and a further consultation on the detail of the notification process, which has been revised in light of feedback from the initial consultation.⁸
- 3.15 VAT grouping** – The government will publish a summary of responses to the call for evidence on VAT grouping before the summer. In light of the responses to the call for evidence,⁹ the government has decided not to take this any further.
- 3.16 Partial Exemption and Capital Goods Scheme** – The government is publishing a summary of responses to the call for evidence on the simplification of VAT Partial Exemption rules, and the associated Capital Goods Scheme. The document includes an update on how HMRC intend to update internal systems in order to simplify the existing process.
- 3.17 New rules to prevent value shifting for VAT** – The government will be publishing a summary of responses this summer to the consultation on 'VAT and value shifting',¹⁰ which opened on 5 January and closes on 30 March. This consultation concerns the introduction of new rules to mandate methods of apportionment of consideration when items with different VAT liabilities are supplied together for a single price – to provide clarity and legal certainty for businesses. Subject to the responses, the government intends to prepare the new rules for introduction and will be providing an update on next steps later this year.
- 3.18 VAT and the public sector** – The government will publish a summary of responses before the summer, following engagement with stakeholders after the publication of the policy paper 'VAT and the Public Sector: Reform to VAT Refund Rules'.¹¹

⁶ [Carbon Emissions Tax](#), HM Treasury, July 2020

⁷ [Written Ministerial Statement: Tax Policy Update](#), HM Treasury, Nov 2020

⁸ [Consultation: Notification of uncertain tax treatment by large businesses](#), HM Revenue and Customs, March 2020

⁹ [VAT Grouping - Establishment, Eligibility, and Registration Call for Evidence](#), HM Treasury, August 2020

¹⁰ [VAT and value shifting](#), HM Revenue & Customs, January 2021

¹¹ [VAT and the Public Sector: Reform to VAT Refund Rules](#), HM Treasury, August 2020

- 3.19 Simplification of the land and property VAT rules** – The government will shortly publish a call for evidence on the VAT land and property exemption to explore options to make the exemption simpler and clearer.
- 3.20 Capital allowances: technical amendment to allowance statement requirements for Structures and Buildings Allowance (SBA)** – The government will legislate to amend the requirements for SBA allowance statements, to include the date qualifying expenditure is treated as incurred when the allowance period commences from this date. Without this change, subsequent owners of an asset on which SBA is being claimed may assume the date the allowance period commences is the date the asset is brought into use. Clarity for businesses on the remaining length of the allowance period means they will not be adversely affected by failing to claim the full relief they are entitled to.
- 3.21 Transfer pricing documentation** – The government is publishing a consultation on whether to update the requirements for businesses to maintain transfer pricing documentation. The consultation will examine whether businesses in scope of country-by-country reporting should be required to maintain a master file and local file, and whether all businesses within the scope of UK transfer pricing legislation should be required to report specific information on cross border transactions with connected parties.
- 3.22 Securitisation tax rules** – The government is publishing a consultation to explore options to clarify and update elements of the rules that determine the taxation of securitisations and of transactions involving insurance-linked securities. Reform would modernise the tax regime to reflect the developing market, enhancing the competitiveness of the UK financial sector.
- 3.23 Social Investment Tax Relief (SITR)** – The government is publishing a summary of responses to the 2019 call for evidence.¹² In light of the review, the government has decided to extend SITR's sunset clause for two years until April 2023, as announced at Budget 2021.

¹² [Social Investment Tax Relief: call for evidence](#), HM Treasury, April 2019

Annex A

Accompanying documents

These documents can be found at <https://www.gov.uk/government/collections/tax-policies-and-consultations-spring-2021>

Consultations, discussion documents and calls for evidence

Closing on 1 June

- Clamping down on promoters of tax avoidance: Consultation
- Transfer pricing documentation: Consultation
- Notification of uncertain tax treatment by large businesses: Consultation

Closing on 3 June

- Reform of taxation of securitisation companies: Consultation

Closing on 15 June

- Raising standards in the tax advice market: professional indemnity insurance and defining tax advice: Consultation
- Helping taxpayers get offshore tax right: Discussion document
- Preventing and collecting international tax debt: Discussion document
- Aviation reform: Consultation
- Aggregates Levy: Proposals on the treatment of aggregate removed during construction works: Consultation

Closing on 5 July

- Hidden economy conditionality – Northern Ireland and Scotland: Consultation

Closing on 13 July

- The tax administration framework: Supporting a 21st century tax system: Call for evidence
- Timely payment: Call for evidence

Other Documents

- Business rates review: interim report
- 2021 Review of the Office of Tax Simplification: terms of reference
- The taxation of trusts: a review: Summary of responses
- Carbon Emissions Tax: Summary of responses to the consultation
- Tackling disguised remuneration tax avoidance: Summary of responses
- VAT Partial Exemption and Capital Goods Scheme: Summary of responses
- Social Investment Tax Relief: Summary of responses to the call for evidence
- Notification of uncertain tax treatment by large businesses: Summary of responses
- Tackling the promoters of tax avoidance: Draft technical guidance

- Long-term effects of the off-payroll working reform: Education sites interim report (HM Revenue and Customs Research Report 608)
- Effects of the off-payroll working reforms on agencies (HM Revenue and Customs Research Report 609)
- Exploring voluntary sign-up to Making Tax Digital for VAT (HM Revenue and Customs Research Report 604)
- Exploring the costs and benefits of Making Tax Digital for VAT experienced by small businesses (HM Revenue and Customs Research Report 605)

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