

DRAFT FOR CONSULTATION

Taxation (Simplification and Consolidation) Bill

**A
BILL**

TO

Consolidate and simplify the law relating to income tax, national insurance contributions, the taxation of chargeable gains, inheritance tax, value added tax, corporation tax, stamp duties and local taxation on residential property; to provide for the equal taxation of income however arising; to restrict reliefs and counteract the avoidance of tax; and for connected purposes.

Prepared as an illustrative draft. This document is not a Bill before Parliament, has not been settled by Parliamentary Counsel, and does not constitute legal or tax advice. Rates and amounts are illustrative pending independent costing.

ARRANGEMENT OF CLAUSES

PART 1 INTRODUCTORY

- 1 Overview and purpose
- 2 Substance over form
- 3 Interpretation

PART 2 INCOME TAX

- 4 Charge to income tax
- 5 Personal allowance
- 6 Rates and thresholds
- 7 Abolition of certain national insurance contributions
- 8 Contribution records and benefit entitlement
- 9 Restriction of reliefs
- 10 Abolition of venture capital reliefs
- 11 Abolition of the remittance basis

PART 3 DISTRIBUTIONS AND EXTRACTION OF VALUE

- 12 Extractions from controlled companies
- 13 Attribution of diverted distributions
- 14 Portfolio distributions: dividend credit
- 15 Consequential repeals

PART 4 CHARGEABLE GAINS

- 16 Gains chargeable as income
- 17 Lifetime exemption
- 18 Main residence
- 19 Deemed disposal on death
- 20 Deemed disposal on gift
- 21 Deferred payment: illiquid assets
- 22 Agricultural property

PART 5 INHERITANCE TAX

- 23 Continuation of inheritance tax
- 24 Trust property
- 25 Agricultural and business property relief
- 26 Property held through non-resident structures

PART 6 VALUE ADDED TAX

- 27 The single rate; fresh produce
- 28 Abolition of zero rates, reduced rates and exemptions
- 29 Exempt supplies
- 30 Input tax: restriction for private use
- 31 Registration threshold and transition relief
- 32 Online marketplaces
- 33 Commencement condition: household support

PART 7 EMPLOYMENT STATUS AND PENSIONS

- 34 Repeal of intermediaries legislation; predominant client rule
- 35 Employer contributions
- 36 Annual limit on relieved pension contributions

PART 8 CORPORATION TAX

- 37 Rate and base

- 38 Minimum assessment by reference to United Kingdom revenue
- 39 Diverted profits tax and digital services tax
- 40 Multinational top-up taxes

PART 9 PROPERTY TAXATION

- 41 Abolition of council tax in England
- 42 Residential property tax (England)
- 43 Distribution of receipts
- 44 Stamp duty land tax: relief for main residences
- 45 Stamp duties on securities

PART 10 COUNTERACTION OF AVOIDANCE

- 46 The general anti-abuse rule
- 47 Penalty
- 48 Disclosure of arrangements
- 49 Register of beneficial ownership
- 50 Disguised remuneration

PART 11 ADMINISTRATION AND GENERAL

- 51 Automatic tax statements
- 52 Deduction at source
- 53 Territorial extent and devolved competence
- 54 Regulations
- 55 Repeals, transitional provision, commencement and short title

Schedules 1 to 5

Schedule 1: Repeals and revocations. Schedule 2: Rates, thresholds and amounts. Schedule 3: Retained reliefs. Schedule 4: Multinational top-up taxes. Schedule 5: Transitional provision.

PART 1

INTRODUCTORY

1 Overview and purpose

- (1) This Act consolidates the law relating to the taxes listed in subsection (2) and gives effect to the principle that a person is to bear the same tax on the same income however that income is earned, described or routed.
- (2) The taxes are income tax, corporation tax, the taxation of chargeable gains, inheritance tax, value added tax, stamp duty land tax, stamp duty and stamp duty reserve tax, and the residential property tax established by Part 9.
- (3) In interpreting this Act a court or tribunal must prefer the construction which taxes economically equivalent receipts and transactions equivalently.
- (4) The Treasury must ensure that the consolidated legislation for the taxes in subsection (2), including instruments made under this Act, does not exceed 1,000 pages in the standard printed form; and no Finance Act may insert a relief into that legislation unless it repeals provisions of at least equal length.

2 Substance over form

- (1) Where the economic substance of a transaction or arrangement differs from its legal form, tax is charged by reference to the substance.
- (2) Subsection (1) applies to the characterisation of receipts, the identification of the person chargeable, and the timing of a charge.

3 Interpretation

- (1) A company is a "controlled company" in relation to a person if that person is a participator in the company and, alone or together with any persons acting together with that person, the participators concerned hold 20 per cent or more of the ordinary share capital, voting power or rights to distributions of the company, or are able in fact to secure that the affairs of the company are conducted in accordance with their wishes.
- (2) "Participator" has the meaning given for the purposes of the close companies legislation, restated in Schedule 3, and includes a loan creditor and a person entitled to acquire rights in the company.
- (3) Persons are "acting together" if they hold their interests under an agreement, arrangement or understanding, whether or not legally enforceable, or if their interests derive from a common source or are managed in common; and it is immaterial that the persons are not otherwise connected.
- (4) "Connected persons" includes a spouse or civil partner, a cohabitant, a minor child, a nominee, a trustee of a settlement made by the person, and a company which is a controlled company in relation to the person.
- (5) "Arrangement" includes any scheme, transaction, series of transactions, agreement or understanding, whether or not legally enforceable, and any associated conduct.
- (6) "Active farmer" has the meaning given by section 22.

PART 2

INCOME TAX

4 Charge to income tax

- (1) Income tax is charged for each tax year on the worldwide income of persons resident in the United Kingdom and on the United Kingdom income of persons not so resident.
- (2) The charge extends to employment income, trading income, pension income, property income, savings income, distributions within Part 3, and chargeable gains within Part 4.
- (3) Residence is determined under the statutory residence test as restated in Schedule 3.

5 Personal allowance

- (1) An individual is entitled to a personal allowance of 12,570 pounds.
- (2) The allowance is not reduced by reference to the level of the individual's income, and the provisions reducing the allowance where income exceeds 100,000 pounds are repealed.
- (3) The transferable marriage allowance continues in accordance with Schedule 3.

6 Rates and thresholds

- (1) Income tax is charged at the basic rate on taxable income between 12,571 pounds and 50,270 pounds, at the higher rate on taxable income between 50,271 pounds and 125,140 pounds, and at the additional rate on taxable income above 125,140 pounds.
- (2) The rates are those specified in Schedule 2. The rates specified on the passing of this Act are 27 per cent, 41 per cent and 47 per cent respectively, which incorporate the contributions abolished by section 7.
- (3) The same rates apply to every description of income within section 4(2), and no separate rate, nil rate band or allowance applies to savings income, distributions or chargeable gains except as provided by this Act.
- (4) This section is subject to section 53 (devolved rate-setting).

7 Abolition of certain national insurance contributions

- (1) Primary Class 1 contributions, Class 2 contributions and Class 4 contributions cease to be payable, and the rates in section 6(2) are set so as to incorporate them.
- (2) Secondary Class 1 contributions continue in accordance with section 35.

8 Contribution records and benefit entitlement

- (1) For the purposes of entitlement to contributory benefits and the state pension, an individual is treated as having paid contributions for any tax year in which the individual's earnings, trading income or deemed earnings equal or exceed the qualifying earnings threshold specified in Schedule 2.
- (2) National insurance credits, including credits for caring responsibilities, incapacity and unemployment, continue to accrue on the existing basis and are recorded against the individual's record maintained under this section.

- (3) An individual may make voluntary payments, at the amount specified in Schedule 2 and corresponding to former Class 3 contributions, to secure a qualifying year not otherwise obtained.
- (4) Nothing in section 7 affects a contribution record accrued before commencement.

9 Restriction of reliefs

- (1) No relief, exemption, allowance or deduction may be claimed against income tax except those listed in Schedule 3.
- (2) Schedule 3 includes deductions for expenses incurred wholly and exclusively in earning trading or employment income, relieved pension contributions within section 36, the personal allowance, relief for gifts to charity, the exemptions in Part 4, and the blind person's allowance; and the Schedule lists every retained relief exhaustively.

10 Abolition of venture capital reliefs

- (1) The reliefs known as the enterprise investment scheme, the seed enterprise investment scheme and relief for investment in venture capital trusts are abolished for shares issued or investments made after commencement.
- (2) Relief attributable to shares issued or investments made before commencement is preserved in accordance with Schedule 5.

11 Abolition of the remittance basis

- (1) The remittance basis of taxation is abolished, and no charge to tax depends on the domicile of any person.
- (2) An individual resident in the United Kingdom is chargeable on worldwide income and gains, subject to relief for foreign tax under Schedule 3.

PART 3 DISTRIBUTIONS AND EXTRACTION OF VALUE

12 Extractions from controlled companies

- (1) This section applies where an individual receives, directly or indirectly, value from a company which is a controlled company in relation to that individual.
- (2) The value received is chargeable to income tax as employment income of the individual for the year of receipt, at the rates in section 6.
- (3) Value received includes a dividend or other distribution, a loan or advance outstanding more than nine months after the end of the accounting period in which it was made, the release or writing off of a debt, the provision of an asset or benefit, and any other transfer of value however effected.
- (4) No dividend allowance, nil rate or reduced rate applies to value chargeable under this section.

13 Attribution of diverted distributions

- (1) This section applies where shares or rights in a controlled company are held by a person connected with an individual who controls the company, and that person does not perform substantive work for the company.

- (2) Whether work is substantive is determined by reference to the hours worked, the duties performed and the remuneration a person at arm's length would receive for them.
- (3) Distributions on the shares or rights are treated as income of the individual who controls the company, and this subsection applies however the diversion is structured, including through separate classes of shares, waivers of dividends, or shares whose value is expected to grow in place of income.

14 Portfolio distributions: dividend credit

- (1) This section applies to a distribution received by an individual from a company which is not a controlled company in relation to that individual.
- (2) The distribution is chargeable at the rates in section 6, and the individual is entitled to a credit equal to the basic corporate proportion of the distribution, as specified in Schedule 2.
- (3) The credit applies at the same rate whether the distributing company is resident in the United Kingdom or elsewhere, and is in place of, not in addition to, relief for underlying foreign tax.
- (4) The credit reduces the tax chargeable on the distribution and is not repayable.

15 Consequential repeals

- (1) The dividend nil rate, the dividend ordinary, upper and additional rates, and the separate charging provisions for savings and dividend income are repealed in accordance with Schedule 1.

PART 4 CHARGEABLE GAINS

16 Gains chargeable as income

- (1) Chargeable gains accruing to an individual are treated as the top slice of the individual's income for the year of disposal and are chargeable at the rates in section 6.
- (2) Business asset disposal relief and investors' relief are abolished.
- (3) Gains of a year not exceeding 3,000 pounds are not chargeable and need not be reported.

17 Lifetime exemption

- (1) The first 500,000 pounds of chargeable gains accruing to an individual, in aggregate over the individual's lifetime and on the deemed disposal under section 19, are exempt.
- (2) The exemption is personal to the individual and no unused amount may be transferred to any other person.

18 Main residence

- (1) A gain accruing on the disposal of an individual's only or main residence is exempt.
- (2) The exemption does not apply where the residence was acquired wholly or mainly for the purpose of realising a gain, and Schedule 3 makes provision about occupation, intention and serial disposals.

19 Deemed disposal on death

- (1) On the death of an individual the individual is treated as having disposed of all chargeable assets at their market value immediately before death, and gains accruing are chargeable under section 16.
- (2) Sections 17 and 18 apply to the deemed disposal.
- (3) Tax paid under this section in respect of an asset is deductible in computing the value of that asset for the purposes of inheritance tax.

20 Deemed disposal on gift

- (1) A disposal of a chargeable asset otherwise than by way of bargain at arm's length is treated as a disposal at market value, and the gain is chargeable under section 16 in the year of the gift.
- (2) Holdover of the gain is available only for land within section 22 which continues to be actively farmed, in accordance with that section.

21 Deferred payment: illiquid assets

- (1) Where tax chargeable under section 19 or 20 is attributable to an asset which cannot readily be realised, the person liable may elect to pay by equal annual instalments over a period not exceeding ten years, with interest at the official rate.

22 Agricultural property

- (1) In addition to section 17, gains of up to 2,000,000 pounds accruing on land actively farmed by the owner or a member of the owner's family are exempt.
- (2) Land is "actively farmed" only if the owner or a member of the owner's family occupies the land and carries on substantive agricultural activity on it; ownership alone does not qualify.
- (3) The instalment period under section 21 is extended to twenty years for land within this section, and begins afresh on a transfer after which the land continues to be actively farmed.
- (4) If, within ten years of a disposal benefiting from this section, the land ceases to be actively farmed by the transferee or the transferee's family, the exemption is withdrawn and the tax becomes payable by the transferee with interest from the date of disposal.

PART 5 INHERITANCE TAX

23 Continuation of inheritance tax

- (1) Inheritance tax continues to be charged at the rates and with the nil rate bands in force at commencement, as restated in Schedule 2, subject to this Part.

24 Trust property

- (1) Property held in a settlement is treated for the purposes of inheritance tax as property of the estate of the settlor or, where different, of the person who provided the property, at its market value.
- (2) Subsection (1) applies to every description of settlement, wherever established, and no discount or relief applies by reason only of the property being settled.

25 Agricultural and business property relief

- (1) Agricultural property relief is available at 100 per cent in respect of land actively farmed within the meaning of section 22(2).
- (2) Agricultural property relief and business property relief are not available where the main purpose, or one of the main purposes, of holding the property is to reduce liability to inheritance tax.

26 Property held through non-resident structures

- (1) Property situated in the United Kingdom, and property deriving the whole or part of its value from land in the United Kingdom, is within the charge to inheritance tax and to tax under Part 4 whatever the residence or form of the entity holding it.
- (2) The person chargeable is the beneficial owner identified under section 49.

PART 6

VALUE ADDED TAX

27 The single rate; fresh produce

- (1) Value added tax is charged at the rate of 16 per cent on every taxable supply of goods or services made in the United Kingdom by a taxable person, on every acquisition and on every importation.
- (2) Supplies of exported goods, and of international transport, are charged at a rate of nil.
- (3) The supply of fresh produce is charged at a rate of nil.
- (4) In subsection (3), "fresh produce" means fruit, vegetables, salad leaves, culinary herbs and edible fungi sold raw and fresh for human consumption, whether loose or merely packaged; and produce is not fresh produce if it has been frozen, dried, canned or otherwise preserved, cooked, juiced, blended, or combined with any other ingredient, or cut, peeled, grated or otherwise cut up, save that cleaning, washing, trimming and the removal of inedible parts do not of themselves take produce outside this subsection.
- (5) The Commissioners must publish guidance identifying the produce within subsection (4), and may by regulations amend the description of fresh produce, subject to section 54.

28 Abolition of zero rates, reduced rates and exemptions

- (1) Subject to sections 27(2), 27(3) and 29, every zero rate, reduced rate and exemption is abolished, including those relating to food other than fresh produce within section 27(3), clothing, publications, domestic fuel and power, water, passenger transport, health, welfare, education, betting and cultural services.

29 Exempt supplies

- (1) The following supplies are exempt: (a) the letting of a dwelling as residential accommodation; and (b) financial services of a description specified in Schedule 3.
- (2) A supply within subsection (1)(b) made to a taxable person for the purposes of a business is charged at a rate of nil.
- (3) Input tax attributable to exempt supplies is not deductible.

- (4) The Treasury must review the practicability of charging financial services by reference to margins, and lay a report before Parliament within three years of commencement, before making any order bringing such supplies into charge.

30 Input tax: restriction for private use

- (1) Input tax on goods or services used otherwise than for the purposes of the business as to more than 20 per cent is not deductible.
- (2) A company with no employees other than its directors may not deduct input tax on road vehicles or consumer electronic equipment.
- (3) The Commissioners must operate a programme of randomised examination of deduction claims by small companies, and penalties apply to abusive claims in accordance with Schedule 3.

31 Registration threshold and transition relief

- (1) A person must be registered when the person's taxable turnover in any period of twelve months exceeds 90,000 pounds, and the threshold shall not be increased.
- (2) A person becoming registered is entitled, for the twenty four months following registration, to a credit against net tax due, reducing on a straight line basis from the full smoothing amount specified in Schedule 2 to nil.
- (3) Where a business is artificially divided in order to obtain the benefit of the threshold or the credit, the Commissioners may direct that the persons concerned be treated as a single taxable person, and Part 10 applies.

32 Online marketplaces

- (1) An operator of an online marketplace is treated as the supplier of every supply of goods or services which the marketplace facilitates to a person in the United Kingdom, whatever the value of the supply, and must account for tax accordingly.
- (2) No relief applies by reference to the value of an individual consignment.

33 Commencement condition: household support

- (1) Section 28 may not be brought into force in relation to supplies of food until the Treasury has certified to Parliament that each of the following is in payment: (a) an increase of 450 pounds a year in the standard allowance of universal credit; (b) the extension of free school meals to all pupils in state funded primary schools and to secondary pupils in qualifying households; and (c) an increase of 200 pounds a year for each child in child benefit.
- (2) The certification must be accompanied by a distributional assessment.

PART 7

EMPLOYMENT STATUS AND PENSIONS

34 Repeal of intermediaries legislation; predominant client rule

- (1) The legislation relating to workers' services provided through intermediaries, including the off-payroll working rules, is repealed.
- (2) An individual who provides services, personally or through an intermediary, is treated for all tax purposes as an employee of a client where more than 80 per cent

of the gross receipts arising from the individual's services in a period of twelve months arise from that client and persons connected with that client.

- (3) In determining gross receipts, receipts arising under arrangements a main purpose of which is to bring the proportion below 80 per cent, including receipts from persons connected with the individual, are disregarded.
- (4) A determination under this section takes effect prospectively from the end of the twelve month period, and Schedule 3 makes provision about measurement, notification and appeals.

35 Employer contributions

- (1) Secondary Class 1 contributions are payable at the rate specified in Schedule 2 on earnings paid to an employee exceeding 14,000 pounds a year.
- (2) The employment allowance is 15,000 pounds.

36 Annual limit on relieved pension contributions

- (1) Relief is available for contributions to registered pension schemes, by or in respect of an individual and from every source combined, up to 20,000 pounds in a tax year.
- (2) Contributions exceeding the limit are treated as taxable income of the individual for the year in which they are made.
- (3) The tapered annual allowance is repealed. Rights accrued before commencement are unaffected, in accordance with Schedule 5.

PART 8 CORPORATION TAX

37 Rate and base

- (1) Corporation tax is charged at the single rate specified in Schedule 2, being 20 per cent on the passing of this Act.
- (2) Expenditure on plant, machinery and other qualifying capital assets is deductible in full in the period in which it is incurred, and the codes of capital allowances, the patent box and sector specific reliefs are repealed in accordance with Schedule 1.

38 Minimum assessment by reference to United Kingdom revenue

- (1) This section applies to a company, or group of companies, whose revenue arising from customers in the United Kingdom exceeds 10,000,000 pounds in an accounting period.
- (2) The company's profits for the period are treated as not less than 10 per cent of that revenue, unless the company demonstrates, by reference to audited consolidated accounts and country by country information, that the profits properly attributable to the United Kingdom on ordinary principles are a lesser amount, in which case that lesser amount, but not less than the group's global operating margin applied to United Kingdom revenue, is substituted.
- (3) Tax paid under ordinary principles for the period is credited against tax arising by virtue of this section.

- (4) The Treasury must seek such amendments to the United Kingdom's double taxation arrangements as are needed to give full effect to this section, and must report annually on progress.

39 Diverted profits tax and digital services tax

- (1) The diverted profits tax continues in force until the Treasury certifies that section 38 is fully in effect and yielding as forecast, whereupon it may be repealed by order.
- (2) The digital services tax is repealed on the coming into force of section 38.

40 Multinational top-up taxes

- (1) The multinational top-up tax and the domestic top-up tax, implementing the global minimum tax, continue in accordance with Schedule 4.
- (2) The Commissioners must maintain a unit dedicated to the compliance of multinational groups with this Part.

PART 9 PROPERTY TAXATION

41 Abolition of council tax in England

- (1) Council tax ceases to be charged in respect of dwellings in England.
- (2) This Part does not affect local taxation in Scotland, Wales or Northern Ireland, which remains a matter for the devolved authorities.

42 Residential property tax (England)

- (1) An annual tax is charged on every dwelling in England by reference to its market value, at the following marginal rates: 0.78 per cent on value up to 300,000 pounds; 0.90 per cent on value between 300,000 and 500,000 pounds; 1.10 per cent on value between 500,000 and 1,000,000 pounds; 1.40 per cent on value between 1,000,000 and 2,000,000 pounds; and 1.70 per cent on value above 2,000,000 pounds.
- (2) Values are to be assessed on a common valuation date and reassessed at intervals of three years.
- (3) The rates may be varied only by an Act of Parliament.
- (4) Schedule 5 provides for deferral of the tax, secured on the dwelling, for persons of pension age and persons unable to pay without hardship.

43 Distribution of receipts

- (1) Receipts of the tax under section 42 are to be paid into a fund and distributed to local authorities in England in accordance with a formula giving weight to population and its characteristics, deprivation, and documented infrastructure need.
- (2) In each of the first three financial years no authority is to receive less than 90 per cent of its funding for the year preceding commencement.

44 Stamp duty land tax: relief for main residences

- (1) No stamp duty land tax is chargeable on the acquisition by an individual of a dwelling in England or Northern Ireland which the individual intends to occupy as an only or main residence.
- (2) Acquisitions of additional dwellings, and acquisitions by companies, remain chargeable at the rates in force at commencement together with the higher rates surcharge, as restated in Schedule 2.
- (3) Land transaction taxes in Scotland and Wales are unaffected.

45 Stamp duties on securities

- (1) Stamp duty and stamp duty reserve tax on transfers of stock and marketable securities continue at the rate of 0.5 per cent, restated in Schedule 2.

PART 10 COUNTERACTION OF AVOIDANCE

46 The general anti-abuse rule

- (1) This section applies where obtaining a tax advantage which is contrary to the purpose of any provision of this Act is the main purpose, or one of the main purposes, of an arrangement.
- (2) The Commissioners may counteract the advantage by making such adjustments as are just and reasonable.
- (3) This section applies to every tax within section 1(2), including value added tax.

47 Penalty

- (1) A person whose tax advantage is counteracted under section 46 is liable to a penalty of 60 per cent of the value of the counteracted advantage.
- (2) Schedule 3 restates the liability of persons who enable or promote arrangements within section 46.

48 Disclosure of arrangements

- (1) A promoter of arrangements of a description specified by regulations must notify the Commissioners of the arrangements before they are made available for implementation.

49 Register of beneficial ownership

- (1) The Commissioners must maintain a register of the beneficial ownership of land in the United Kingdom, and of other property situated in the United Kingdom held through bodies corporate, partnerships or trusts, wherever established.
- (2) Tax in respect of registrable property is charged by reference to the beneficial owner, and dealings in unregistered property of a registrable description are of no effect to pass title until registration is effected.

50 Disguised remuneration

- (1) Value provided, by whatever means, by or at the direction of a company or third party to a person who works for the company, or who controls it, or to a person connected with either, is chargeable according to its economic character as employment income or as a distribution.

- (2) Subsection (1) applies in particular to loans, transfers of assets, and undertakings to provide benefits in the future.

PART 11

ADMINISTRATION AND GENERAL

51 Automatic tax statements

- (1) The Commissioners must issue to every individual whose affairs are within data reported to them an annual statement of income, tax deducted and tax due, and such an individual is not required to deliver a return unless the statement is incomplete or disputed.

52 Deduction at source

- (1) Tax is deductible at source from employment income under PAYE, and at the basic rate from interest and portfolio distributions paid by deposit takers, companies and platforms, with reconciliation through the individual's statement under section 51.

53 Territorial extent and devolved competence

- (1) This Act extends to England and Wales, Scotland and Northern Ireland, subject as follows.
- (2) The power of the Scottish Parliament to set rates and thresholds of income tax on the non-savings, non-dividend income of Scottish taxpayers, and the power of Senedd Cymru to set Welsh rates, are unaffected; and section 6 applies to such income subject to the rates so set.
- (3) Sections 41 to 43 extend to England only; section 44 extends to England and Northern Ireland only.
- (4) Provision of this Act which would be within the legislative competence of the Scottish Parliament or Senedd Cymru if contained in an Act of that legislature may not be commenced until the relevant legislature has passed a motion consenting to it.
- (5) Consequential adjustments to the block grants are to be made in accordance with the agreed fiscal frameworks.

54 Regulations

- (1) Regulations under this Act are to be made by statutory instrument, and a statutory instrument containing regulations which amend Schedule 2 or Schedule 3 may not be made unless a draft has been laid before and approved by resolution of the House of Commons.

55 Repeals, transitional provision, commencement and short title

- (1) The enactments listed in Schedule 1 are repealed to the extent specified.
- (2) Schedule 5 makes transitional provision, including rebasing of assets, preservation of accrued rights, and phased commencement.
- (3) This Act comes into force on such days as the Treasury appoints by regulations, subject to sections 33 and 53(4).
- (4) This Act may be cited as the Taxation (Simplification and Consolidation) Act.

SCHEDULES

SCHEDULE 1: REPEALS AND REVOCATIONS

The Income Tax (Earnings and Pensions) Act 2003, the Income Tax (Trading and Other Income) Act 2005 and the Income Tax Act 2007 are repealed and restated in this Act and in Schedule 3. The Taxation of Chargeable Gains Act 1992 is repealed. The provisions of the Social Security Contributions and Benefits Act 1992 relating to primary Class 1, Class 2, Class 3 and Class 4 contributions are repealed, subject to section 8. Chapters 8 and 10 of Part 2 of the Income Tax (Earnings and Pensions) Act 2003 are repealed. Part 4 of the Finance Act 2003 is amended in accordance with section 44. The Value Added Tax Act 1994 is repealed and restated in Part 6 and Schedule 3. The codes relating to the enterprise investment scheme, the seed enterprise investment scheme and venture capital trusts are repealed. The provisions relating to the remittance basis are repealed. The digital services tax is repealed in accordance with section 39. The Local Government Finance Act 1992 ceases to have effect in relation to England. Amending provisions of Finance Acts are repealed to the extent set out in the full Schedule.

SCHEDULE 2: RATES, THRESHOLDS AND AMOUNTS

Personal allowance: 12,570 pounds. Basic rate threshold: 50,270 pounds. Additional rate threshold: 125,140 pounds. Rates of income tax: 27, 41 and 47 per cent. Qualifying earnings threshold for section 8: the lower earnings level in force at commencement. Corporation tax rate: 20 per cent. Dividend credit (basic corporate proportion): 20 per cent of the grossed equivalent. Rate of value added tax: 16 per cent. Registration threshold: 90,000 pounds; smoothing amount for section 31(2): as specified by regulations. Employer contribution threshold: 14,000 pounds; employment allowance: 15,000 pounds. Pension contribution limit: 20,000 pounds. Lifetime exemption for gains: 500,000 pounds; de minimis: 3,000 pounds; agricultural exemption: 2,000,000 pounds. Inheritance tax: rates and nil rate bands as at commencement. Residential property tax bands: as set out in section 42. Securities duty: 0.5 per cent. Minimum assessment: 10 per cent of United Kingdom revenue above 10,000,000 pounds.

SCHEDULE 3: RETAINED RELIEFS

An exhaustive list, not exceeding fifty entries, comprising: deductions for expenses wholly and exclusively incurred; relieved pension contributions; the personal allowance and transferable marriage allowance; gifts to charity; the exemptions in sections 17, 18 and 22; the blind person's allowance; foreign tax credit relief; the individual savings account wrapper subject to a lifetime subscription cap; charity exemptions; the restatements of the close company participator rules, the statutory residence test, exempt financial services, penalty and enabler provisions, and measurement and appeal rules for section 34.

SCHEDULE 4: MULTINATIONAL TOP-UP TAXES

Restatement of the multinational top-up tax and domestic top-up tax, and provision for the compliance unit under section 40(2).

SCHEDULE 5: TRANSITIONAL PROVISION

Election to rebase assets to market value at commencement. Preservation of relief for venture capital investments made before commencement. Preservation of pension rights accrued before commencement. Phased commencement of Part 6 in relation to

previously exempt or zero rated supplies over periods of up to thirty six months, subject to section 33. Deferral of residential property tax for pensioners and cases of hardship. Application of section 24 to settlements created before commencement over a period of five years. Continuation of the diverted profits tax pending certification under section 39.

EXPLANATORY NOTES

These notes relate to the draft Taxation (Simplification and Consolidation) Bill. They have been prepared in order to assist the reader and do not form part of the Bill. This is the fifth revision of an illustrative policy draft; it has not been settled by Parliamentary Counsel and all amounts are illustrative pending independent costing by the Office for Budget Responsibility.

Summary

The Bill consolidates the principal taxes into a single code with a target length below 1,000 pages. Its central mechanism is the equal taxation of income from every source: employment, self-employment, dividends and gains are charged on one rate schedule, at 27, 41 and 47 per cent on the existing thresholds, which incorporates the abolished employee national insurance contributions and delivers a one penny reduction at the basic and higher rates. Value added tax is charged at a single rate of 16 per cent on a broadened base, with a single exception at the nil rate for fresh produce (raw, unprocessed fruit, vegetables, salad, herbs and fungi) in order to support healthy diets. Stamp duty land tax is removed from main residences in England and Northern Ireland and council tax in England is replaced by a banded tax on current property values.

Changes made at this revision

First, the definition of a controlled company (section 3) now rests on the established participator rules with an acting together test, so that holdings split between nominally unconnected persons at just below any percentage line are aggregated. Secondly, the test replacing the intermediaries legislation (section 34) is measured by gross receipts rather than working time, aggregates connected clients, disregards receipts from arrangements designed to defeat the test, and takes effect prospectively with a right of appeal. Thirdly, the dividend credit for portfolio investors (section 14) is a flat credit applying identically to United Kingdom and foreign distributions, avoiding both the complexity of full imputation and discrimination between domestic and cross-border holdings. Fourthly, residential letting is exempt rather than standard rated (section 29), following the New Zealand model; this removes the conflict with rent regulation and avoids an immediate rise in rents, at the cost of blocked input tax for landlords. Fifthly, financial services are exempt with business to business supplies at the nil rate, again following New Zealand; the Bill requires a review before any margin based charge is attempted, in recognition that no jurisdiction has yet implemented one successfully. Sixthly, the minimum assessment on multinationals (section 38) is rebuttable by audited evidence and floored at the group's own global margin, is creditable, and is accompanied by a duty to renegotiate treaties; the diverted profits tax is retained until the new charge is proven. Seventhly, a deemed disposal on gifts (section 20) closes the route by which the charge on death could be avoided by lifetime giving, with holdover confined to actively farmed land and a ten year clawback if farming ceases. Eighthly, the Bill now states its territorial extent correctly: the property tax provisions extend to England only, stamp duty land tax relief to England and Northern Ireland only, devolved rate setting is preserved, and provisions within devolved competence require legislative consent before commencement. Ninthly, contribution records, carer credits and voluntary contributions are preserved expressly (section 8). Tenthly, the lifetime exemption for gains is made personal and non-transferable.

Fiscal effects

On cautious assumptions the package is expected to be revenue positive by between 11 and 26 billion pounds a year. The rate of value added tax has been set at 16 rather than 15 per cent in order to secure that headroom, and the household support required by section 33 has been recalibrated to that rate. A single nil rate is retained for fresh produce (section 27(3)); this is estimated to cost in the region of 2 billion pounds a year and is justified as a public health measure encouraging consumption of raw fruit and vegetables, and as mitigation of the effect of the tax on food budgets. It is recognised that this exception reintroduces a boundary of the kind the Bill otherwise removes, and that guidance under section 27(5) will be needed to address cases such as prepared salads, frozen and dried produce, and produce combined with other ingredients; the boundary is nonetheless far narrower than the food rules it replaces. The principal yields are the broadened value added tax base net of the exemptions in section 29; the alignment of dividend and capital gains taxation with income tax, including the charges on death and on gifts; the restriction of reliefs; and the minimum assessment on multinationals. The principal costs are the one penny rate reductions, the raised employer contribution threshold and employment allowance, and the household support required by section 33. These figures avoid double counting: the estimate for the broadened base does not separately assume recovery of the compliance gap attributable to complexity, which is treated as an unquantified upside. Behavioural responses, in particular to the alignment of capital gains rates, are the largest source of uncertainty and have been scored conservatively. No revenue is assumed from the repeal of the digital services tax before the minimum assessment is certified as effective.

Commencement

Commencement is phased. Value added tax may not be charged on food until the household support payments in section 33 are certified as being in payment. Provisions within devolved competence require the consent of the relevant legislature. The residential property tax requires completion of a revaluation of dwellings in England, for which a common valuation date will be appointed.