

Send in the clowns...

What's the difference between the Budget and a circus? One takes place in a big-top filled with clowns and braying onlookers, the other is the circus, writes Andy Wood

We managed to drag the kids from playing Roblox on their computers for a few hours and went to the circus at the weekend.

One thing I am amazed by is how they all muck in. One minute someone is selling you popcorn, the next minute they are swinging from a chandelier by their teeth.

But I digress.

Human cannonball

Truss and Kwarteng fell off of the high wire last year (with Sunak suspected of cutting the safety net) when 'the market' determined the show was a disaster and were straight round to the box office to ask for their money back.

Days later, Truss was lighting the fuse on the cannon, firing Kwarteng.

Sadly for her, it wasn't long before she was grudgingly climbing into the barrel and becoming the second human cannonball.

Hunt is now in charge of the big top.

What can we expect in the line-up of acts?

The contortionist

The UK's R&D regime has been an attractive regime for many years – in terms of its generosity and the inarguable 'light touch' approach taken by HMRC in policing it.

As we have seen R&D claims management companies 'contort' claims for vegan menus and other nonsense, this is a regime that has been ripe for change for some time.

We are now beyond that tipping point.

Changes that were announced/confirmed last year will be introduced with effect from 1 April 2023.

However, the response to cut the relief from 230% of qualifying expenditure to 186% for the SME regime (with a corresponding increase for the RDEC scheme, which largely applies for larger schemes) seems a bizarre response to perceived abuse of the scheme.

Further, we have seen proposals for a unified regime rather than the current dual system.

I have long hypothesised that the Government could, instead, target the relief at particular industries including the tech sector and environmental industries.

Expect more on this at the Budget.

The acrobat

There is a U2 song on Achtung Baby! called Acrobat, with a line that goes something like “You must be an acrobat, you talk like this, and act like that...”

There is perhaps no better line to describe the current conservative policy to the self employed and business.

Corporation tax rates were going up, then they weren't and now they are again.

Same for income tax.

IR35? Again, more somersaults.

Expect the proposals to bring in the CT rate at 25% to be confirmed.

However, I suspect there will be a roadmap for the remainder of the Parliament which, hey presto, will show a reduction in CT as we near election time.

The tightrope walker

The tightrope analogy is probably the most trite. But on the basis I am writing a piece comparing the budget to a circus then it shouldn't be a surprise I'm using it. Who do you think I am, Oscar Wilde?

We are often told the cost of various reliefs. This is broadly based on the number of people who make use of it and the amount of tax they would have paid. However, we cannot just say the scrapping of that relief will therefore raise that amount of extra tax.

This is because most of us (sadly not all of those writing press articles and in politics!) understand that removing reliefs or increasing tax rates effect people's behaviour.

[This was something recognised by Arthur Laffer – who himself had nabbed the idea from the Muslim scholar](#), dubbed the ‘father of economics’, Ibn Khaldun

One key example of this is the UK's attractive, but somewhat anachronistic, non-dom regime.

Changes here will always be a superficially attractive area for a Government as it ticks the most important box these days – that the voters will like it. Voters will like it as it imposes tax rises on the right people – anyone but them.

However, even the most dogmatic of politicians will appreciate that pulling the plug on this regime will cost the country. We can see this in Labour's proposals for a five-year period where those coming to the UK will be entitled to a beneficial regime of some sort.

This is especially the case bearing in mind other countries are seeking to attract internationally mobile ‘talent’.

Care needs to be taken.

So, will we see anything in this space? My bet is some kind of consultation to kick the can down the road.

The juggler

Pension tax relief is costly.

It's not surprising when one adds up the relief on contributions and tax-free growth. You could also throw in the tax-free lump sum and some benefits on death (particularly where one ignores taxes paid by certain beneficiaries of pension pots on death).

So, taking out the fiscal Swiss army knife is attractive, right?

However, because he's been sharing a pre-circus pint with the tightrope walker (a drunk tightrope walker, what could go wrong?), our juggler knows that there are unintended consequences.

Clearly, if one removes the incentives, and particularly where penalties for pension saving are introduced, then people will decide it's time to retire early.

Sadly, our circus brethren know more than successive Chancellors, who have done this oblivious to the fact that the clamour to save tax relief will also change behaviour and plans.

There is now a problem that hundreds of thousands have left the workforce early. It's a surprise to the Government they simply weren't doing it for the fun.

As such, it is anticipated that the pension lifetime allowance will be cranked up in a bid to stop workers from retiring early.

Will this work? Is daytime telly that bad?

The fire-eater

Not so long ago, the traditional fire-eater would have been in high demand albeit in helping to warm the cockles of the British public deeply impacted by the 'cost of living crisis'.

Arguably, the worst has been and gone but with inflation still running riot, the fact that the Government's Energy Price Guarantee, which caps energy costs for households, is scheduled to rise from £2,500 to £3,000 will expire on April 1 is seen as problematic.

As such, one might expect ringmaster Hunt to keep the cap at £2,500 for another three months. This will save families hundreds of pounds on their energy bills and will cost around £3bn.

However, will we see any scraps in this area thrown to businesses?

The knife thrower

Despite the near disappearance of the marketed tax avoidance market over the last decade, the Government remains active here.

However, this is now almost entirely related to contractor loan schemes bolted on the back of umbrella companies. These are entities that employ individuals largely, because the business that wants to use their services, does not want to employ them.

HMRC has been stung by the criticism it has been subject to following the loan charge and it is out for blood. It has been given significant powers around early intervention and naming and shaming powers. These are being invoked aggressively at the moment.

Yet, despite yet seeing the result of the slew of new powers, there is still a clamour for more to be done.

There are perhaps two main areas where the government might direct its anti-avoidance knives.

Firstly, are measures targeted at umbrella firms specifically. It seems to me to be desirable for these entities, which are the gateway to loan schemes, to be regulated in some form. Some have suggested they should be banned all together.

The other option I have heated mooted is that legislation is introduced to criminalise those promoting these schemes. These seems over the top and is fraught with difficulties and I would expect the legal bodies to raise some concerns here. It would seem much more appropriate (and more workable) to make the umbrella company (and its stakeholders) liable for any material amounts of underpaid tax.

Again, I expect more consultations – whether regulatory or tax driven – over any proposed changes.

The lion tamer

My youngest only agreed to go to the circus only if there were no animals. I don't think there has been an animal in a circus for decades, but I admire her 'red lines'.

So what about our poor lion tamer?

Sadly, they are redundant. The ringmaster handed over the P45 many years ago.

This leads us to the Office for Tax Simplification. Like the lion tamer, they are no more.

Superficially, one might say the OTS has a terrible track record in simplifying the tax code over its more than decade existence. Simply speaking, the tax code has got longer and more complex since they've been around.

I do have some sympathy in that their role has always been backward facing.

As such, its role has been akin to picking crisp packets out of a river whilst someone else is pumping sewage into it further downstream and been judge on how clean it is.

Will we see Hunt do a U-turn on Kwarteng's axing?

The circus apparatus designer

There is some great creative talent in the circus which, like anything else, needs to innovate and keep abreast of latest technology? For example, engineers like Marion Cossin.

I expect some further announcements on tech investment. Again, this could be via existing reliefs such as R&D or the Enterprise Investment Scheme (EIS) or through using Investment Zones.

In addition, I can see green investment being high on the agenda. Again, both R&D and EIS could be tweaked to provide enhanced benefits for green projects.

There is a precedence for this in EIS with the enhanced benefits offered to Knowledge Intensive Companies.

The Rolling Stones' Rock and Roll Circus

Finally, as you may know, the Rock and Roll Circus was a legendary gig filmed for a BBC special in 1968. However, the Stones blocked its release because, well, er, they had over indulged somewhat.

Of course, there is clearly no chance of anyone in the Commons having partaken in any illegal substances.

Absolutely no one.

-
- *This article was written before the Chancellor's Budget in March 2023.*
 - *Andy Wood* is a director at ETC Tax and a member of Addington Chambers. Contact Andy.wood@etctax.co.uk or awood@addingtonchambers.com