Tax services

Conservative Party wins clear majority in General Election

Implications for Brexit and tax policy

In the General Election held on 12 December 2019, the Conservative Party secured a clear majority as the next UK Government, which they can use to implement their campaign promises. First and foremost, this will mean a focus on the Brexit Withdrawal Agreement Bill but there will be tax changes and issues to be addressed in the February Budget. The tax content of the Conservative's election manifesto had much of the flavour of a Budget and it is relatively easy to predict how these promises translate into Budget measures. The bigger question may be whether the Government, empowered by its significant parliamentary majority, chooses to supplement these manifesto commitments with new, additional policies to reinforce that Britain is 'open for business' as well as to attract and support investment.

Brexit

With Parliament returning on Tuesday 16 December, and a Queen's speech scheduled for Thursday 19 December, Boris Johnson has said that he will introduce the Withdrawal Agreement Bill on Friday 20 December, so that an initial vote by MPs can take place on Monday 23 December. Once the Withdrawal Agreement Bill is passed, the European Parliament still needs to ratify the deal before 31 January 2020 for Brexit to happen.

If the UK does leave the EU on 31 January 2020, it will enter the 'transition period' which is currently scheduled to end on 31 December 2020. Although there is provision to extend the transition period by one or two years, Boris Johnson has said that he has no intention of doing so. While within the transition period, the UK essentially remains part of the EU (albeit not participating in EU meetings and votes). Once the transition period is over, the UK will no longer apply EU tax directives, including the Parent-Subsidiary Directive and the Interest and Royalties directives, which eliminate withholding tax on certain flows between Member States. As a result, groups may find that they have additional withholding tax costs to manage from January 2021 unless the transition period is extended, new agreements are reached or the groups themselves restructure.

During the transition period, the EU and the UK will negotiate the future relationship. The agreed political declaration calls for a comprehensive free trade agreement (FTA) with zero tariffs on most goods and services and minimal border checks. The scale of the Conservatives' victory in the election not only gives momentum to the Brexit process, but leaves the Government with some flexibility over the detail of the negotiations on the desired FTA.

Building a better working world

While Boris Johnson and Sajid Javid for the Conservatives have said that concluding such an FTA is possible in the 11 months to December 2020, many other political figures in the UK and the EU hold different views. There remains a significant risk that, while the UK may now leave the EU with a 'deal' ratified by the Conservatives majority, businesses may be subject to additional costs and disruption from 1 January 2021 if a deal on an FTA cannot be concluded in time. These risks may be added to if the current issues with referring trade disputes to the WTO appeals court continue.

Tax policy and the upcoming February Budget

Boris Johnson has said that the Budget in February will be "a tax cutting Budget" but it is worth noting that the UK has also committed to increased spending. The tax policy focus is therefore likely to remain on keeping the UK tax burden as low as possible, consistent with the increased spending commitments, and ensuring that all tax due is collected. The process of making and taking forward UK tax policy is likely to remain the same, and there is now the chance for businesses to engage with the UK Treasury ahead of the February Budget and in light of the new Brexit momentum.

The Conservatives have said that the February Budget it will include the increase in the national insurance primary and secondary threshold to £9,500 (this is the level above which national insurance (social security) becomes payable both by employers and employees). The February Budget will also have to include the cancellation of the cut to the enacted corporation tax rate, so that it stays at 19% from April 2020. Other corporation tax measures we would expect to see in February are the increases in structures and buildings allowance (to 3%) and R&D tax credit relief (to 13%) and possibly the change in the definition of research & development to include cloud computing and data.

Two of the areas which are less clear at this stage are:

- The future of the digital services tax (DST). During the election, the Conservatives confirmed that it would be implemented as intended. However, there remains a tension between implementing the tax and any potential trade deal with the US (given the recent US Trade Representative report and ongoing action in relation to the French DST).
- The future thinking behind statements by the Conservatives that they would review and reform Entrepreneurs' Relief and limit arbitrary tax advantages for the wealthiest in society.

The process of implementing Brexit may of course raise additional issues to be resolved in time for the end of the transition period.

For employers, we may see the promised increase in the employment allowance to £4,000 as well as the first step in the previous commitment to increase the amount and scope of the National Living Wage. In addition, the Conservatives may launch consultations on issues such as the apprenticeship levy and pensions (probably on protecting investors rather than tax reform). Sajid Javid also said on the campaign trail that he would review the proposed extension of IR35 (off-payroll working) to the private sector to make sure they are the 'right changes to take forward'.

A new anti-avoidance and evasion law was proposed in the manifesto, as well as new taxes in the form of the plastic packaging tax and a now 3% stamp duty land tax (SDLT) surcharge on non-residents buying UK residential property. The Conservatives also pledged a 'fundamental review' of the business rates system.

Implications

The General Election might not have brought a different party into Government, but it will lead to changes in policy, especially with the work to be done on Brexit.

Once the implementation of the Brexit Withdrawal Agreement is completed in January, the tax policy cycle will kick in with the Budget in February. It is important that businesses are ready to engage with the new Government around the Budget.

Further information

For further information, please contact one of the following or your usual EY contact:

Chris Sanger	csanger@uk.ey.com	020 7951 0150
Marc Bunch	mbunch@uj,ey.com	020 7980 0298
Mike Gibson	mgibson1@uk.ey.com	020 7951 0568