

Rishi Sunak's Budget must fix these seven tax injustices

Tax Hacks: shambolic rules and complex policies need to be changed before taxes are raised

[Mike Warburton](#) 19 October 2021 • 6:00am

[Tax Hacks](#) is written by Mike Warburton, previously a tax director with accountants Grant Thornton, and is published twice a month on Tuesdays. You can email Mike on taxhacks@telegraph.co.uk

During my career I'd always hoped to develop into the role of wise elder statesman. Sadly some colleagues suggested "grumpy old man" would be a better description.

You may judge for yourselves, because with the Budget approaching I have taken a look at some of the petty injustices we still have to face as taxpayers. It is time for Chancellor Rishi Sunak to step up and solve these issues for good.

1) IR35 shambles must be sorted

I must start with the off-payroll rules, better known as IR35. It is a sad indictment of our policymakers that the mess this legislation has created is so bad that even major government departments [cannot apply the rules correctly](#).

At the root of this is the failure of successive governments to set a clear definition of what is meant by "employment".

2) Remove the lifetime allowance tax trap

When the pension lifetime allowance was introduced by Labour, Treasury minister Ruth Kelly said it would only hit 5,000 of the wealthiest people. Royal London now estimates that 1.25 million of us will be caught, living proof that we should be [wary of the words of a politician](#).

This trap is a penalty on successful investment performance and is double taxation, because income tax will be applied anyway when pensions are taken. It discourages hard work and enterprise and should play no part in a dynamic economy.

3) Overhaul tax filing rules

I have [previously highlighted](#) the appalling injustice imposed on Allan Webster who effectively suffered a £215,000 tax penalty for having the temerity to submit his tax return before the deadline. By doing so he was prevented from making a planned carry back of a large gift aid payment to charity in memory of his recently deceased wife.

There can be no possible justification for keeping this law on the statute book for stone hearted tax inspectors to impose on their "customers".

4) Fix the insurance tax loophole

Investors in single premium life policies, where users make one up front lump-sum payment, can enjoy the advantage of drawing up to 5pc of their investment each year on a cumulative basis without tax applying.

On the other hand, the byzantine rules treat any amounts drawn in excess of this as a gain subject to income tax, even if this is in excess of the real profits made by the policy.

Currently the only redress an investor has is to apply to HM Revenue & Customs for relief where the gain is “wholly disproportionate” – under tax rules IPTM3596 – and this is only given in exceptional cases.

Why not simply set a cap on the taxable gain based on the real profits made in the policy and avoid having to plead with a tax inspector for special treatment?

5) Stop punishing cohabiting siblings with huge inheritance tax bills

During my lifetime British society has come a long way. When I was a child the death penalty still applied, racism was common place and gay sex was a criminal offence.

Today we have same sex marriages where couples can benefit from, amongst other things, inheritance tax free transfers between them. However, I know of many cases where siblings are living happily together, either by choice later in life when their partners have passed on or indeed throughout their lives.

Regardless of the strength of their commitment to each other they are not allowed by law to enter into a civil partnership and therefore face the uncertainty when, late in life, one of them dies and IHT arises.

6) Child benefit rules must be straightened out

Many people fail to register for child benefit because it would be taken back in tax, unnecessarily creating a gap in their state pension record. There should be a credit given regardless of registration.

7) Give pensioners overseas the income they are due

If you plan to retire overseas there remains an anomaly in the way state pensions are paid. Although [now out of the EU](#), you can still retire anywhere in the European Economic Area or Switzerland and have your pension increased each year. The same applies to America. Bizarrely if you choose Canada, New Zealand or South Africa your pension will be frozen at the rate paid at your retirement date.

...and some taxes Mr Sunak could raise

These are the biggest injustices in the tax system which should be overhauled for reasons of fairness and simplicity. As we know Mr Sunak has warned he will need to raise some taxes to pay for the cost of the pandemic. At the risk of upsetting some readers, I also have suggestions for a few easy tax raising measures:

- Apply council tax to furnished holiday lets, or remove their small business rates exemption
- Tax dividends paid to overseas investors
- Remove the IHT exemption for let farmland, which can keep land prices out of reach for working farmers to buy
- Set a 30pc luxury VAT rate. If you can afford to pay £1,000 for a handbag you can afford the extra tax

Are you concerned taxes will rise substantially in the Budget? Where would you look to raise funds? Leave your thoughts in the comments section below