The Infrastructure Forum

Taxation Working Group

Submission to the Chancellor of the Exchequer

Unleashing Britain's Potential Through Infrastructure Investment

1. In advance of the budget on 11th March 2020, The Infrastructure Forum (TIF) Taxation Working Group welcome the opportunity to provide suggestions to assist the Government in reaching its manifesto aim of unleashing Britain's potential. In the context of forthcoming announcements on UK infrastructure, including Transport and Rail, the National Infrastructure Strategy, the Energy White Paper, a 2025 target for nationwide gigabit capable networks and 2050 sustainability target for reaching Net-Zero, **it will be essential that tax incentives are aligned with these objectives.**

2. Infrastructure is the backbone of Britain. Tax policy aligned to future infrastructure delivery models can play a key part in encouraging investment into UK infrastructure, and in helping achieve the broader manifesto and policy goals**. Tax relief for capital spend and associated finance costs are priorities in any major project.** In order to encourage investment into the UK's infrastructure, it is imperative that those entities incurring expenditure in key infrastructure projects are able to achieve tax relief commensurate with their economic investment, both in terms of amount and timeliness. Certainty and simplicity in tax policy, and the implementation of that policy, when considered in the context of infrastructure decisions can help ensure that, irrespective of the model used to deliver it, the long-term benefits significantly outweigh the immediate costs.

3. This document sets out, at a high-level, some areas Government may wish to consider as part of the upcoming Budget. The suggestions put forward by the Group are focused on **encouraging capital investment** in infrastructure, **simplifying the tax treatment** associated with commercial financing arrangements, as well as specific suggestions to support policy aims around **devolution** and a f**airer tax system.**

4. It is acknowledged that each suggestion will have a differing budgetary impact and must be weighed against the benefits and broader policy aims. In each case the suggestions could be developed to align to a particular sector, region or policy objective; or be packaged into a suite of incentives to support a broader policy aim. To this end, TIF would welcome the opportunity to engage with Government, HM Treasury and HM Revenue & Customs to explore and expand on any of these ideas.

Building on Existing Legislation

5. Significant work between the Infrastructure sector, HM Treasury, and HM Revenue & Customs as part of the introduction of the Corporate Interest Restriction legislation in the UK established the definition of **'Public Benefit Infrastructure'** and the concept of a **'Qualifying Infrastructure Company'.**

6. As a result, there is a definition already within UK legislation that could form the base for the development of the ideas below; and for further refinement to align to specific policy objectives, sub-sectors, or regions of the UK.

Encouraging Capital Investment

(Re)Introduction of an Initial (Capital Spend) Allowance

7. **A full in year tax relief on all capital expenditure** incurred on 'qualifying infrastructure' would be a powerful incentive for infrastructure investment. Such a relief would ensure that tax relief is given in line with the often-significant upfront expenditure on infrastructure projects.

8. Linked to specific sectors, technologies or regions for example, could enable tax policy to provide further incentive to better align investment decisions and expenditure with broader policy objectives. Applied across all areas of expenditure that currently attract tax relief through the capital allowance regime, but currently at different rates, would create an opportunity to greatly simplify the way tax relief is provided for capital expenditure.

Simplification and Expansion of Structures & Buildings Allowances

9. The introduction of Structures & Buildings Allowances ('SBAs') was a very positive step towards improving the UK tax environment for infrastructure. However, we would question whether it yet achieves the policy objective of attracting investment into UK infrastructure in its current form. Even with the Conservative party manifesto pledge to increase the rate of SBAs from 2% to 3% the current regime is unlikely to influence investment decisions and incentivise investment in UK infrastructure.

10. Further changes to the rules to **remove unnecessary complexity**, and to ensure that SBAs will provide the relief for the economic costs of an asset which may have an **expected life**, or anticipated project life, of less than 50 years (33 years with the proposed increased rate) could enable the SBA regime to have a much greater impact on investment decisions and the delivery of UK infrastructure.

A Broader Enhanced Capital Allowance (ECA) Regime

11. Whilst it is acknowledged that the current ECA regime is complex and difficult to apply, a full repeal of this regime would appear to contradict the stated policy to achieve carbon neutrality by 2050. Instead, the **ECA regime could be expanded and simplified** to better incentivise investment in technologies which work to achieve the policy aim of carbon neutrality; aimed specifically, at sectors or regions that would benefit from additional support, such as low-carbon energy generation assets, transport infrastructure or full-fibre installation.

Blended Infrastructure Allowance Rate

12. An **electable blended rate of allowance**, applied to expenditure on a 'qualifying project / asset' could create an option for a much simplified approach to calculating and attributing tax relief to major infrastructure projects; eliminating the complex application of the numerous rates that apply to the 'regimes within the Capital allowance regime'.

Infrastructure Development Expenditure Credits

13. A **tax credit** like the successful Research & Development Expenditure Credit (RDEC) would support the development of infrastructure projects which are often loss making in the early stages.

14. Whilst the proposed increase in the RDEC from 12% to 13% may have limited impact in the infrastructure sector, an **Infrastructure Development Expenditure Credit (IDEC)** would allow greater support, providing an accelerated cash profile to fund development/financing costs at a time when income generation is low (or has not started) and funding requirements are often at their most significant.

15. Like the RDEC, an IDEC could discharge liabilities of loss-making companies or result in a cash payment to support the development of infrastructure in the UK. A similar credit mechanism could be explored in relation to losses more generally; realised and 'surrendered' to HMRC in return for a tax credit.

Tax Loss Regime

16. In conjunction with enhanced relief for capital investment, specific **refinement to the loss regime** as applied to infrastructure operators/project companies could further incentivise investment; for example, **removing the 50% offset restriction**, **or increasing the £5m deductions allowance** for qualifying entities/groups, or for a specified period of time.

17. This could be further targeted at specific sectors or qualifying entities delivering activities in defined locations/regions.

Financing Infrastructure

Infrastructure Bond

18. The tax considerations for financing UK infrastructure investments can be particularly complex, particularly for overseas investors or Fund investors operating as Consortia.

19. The concept of an **'Infrastructure Bond'**, linked to the financing of projects which meet defined criteria (potentially based around the public benefit infrastructure definition in the existing Corporate Interest Restriction legislation) could provide a simplified, more certain solution for funding UK infrastructure.

20. Such bonds could be standardised, tied to longer maturity, be highly liquid and could attract specific tax features such as exemption from withholding tax, and provisions for interest deductibility (addressing the current complexities that arise from transfer pricing, late paid

interest rules, corporate interest restriction rules). There could be further opportunity to develop the concept of a retail Infrastructure bond to **enable individuals to invest** into UK infrastructure projects, with specific incentives in the form of tax-exempt returns for example.

Regional Devolution and Incentives

Freeports / Economic Zones

21. Incentives attached to **Freeports or investment zones** (similar to the Enterprise zones of the past) applying to designated areas where they can import and export goods free of charge, benefit from a special tax regime and deal with reduced bureaucracy; could be designed to support the rebalancing of the country.

22. The concept of a **'devolution / regional bond'** with similar features to the infrastructure bond above, to support targeted investment in specific regions and sectors within those regions could assist in the attracting and financing major investment. Such features would be trialed for a certain period to determine if these do drive the investment and growth in specified areas as intended.

Devolution of Taxing Rights / Ringfencing of Tax Revenues

23. A form of **devolution of taxing rights or rights to tax revenues** (e.g. business rates attributed to assets developed in particular projects or regeneration) **to regional bodies** could provide a ringfencing of the benefits from specific projects that could be secured to fund that specific project or future ones in the same region; encouraging regions to focus investment on the types of project and regeneration schemes that create growth, investment and broader tax revenues.

24. As an example, entities investing projects or investments delivered in particular regions may be exempt from taxation on income (or certain types of income), provided that income is re-invested into specific projects – this should encourage future growth in those regions and allow regional areas the autonomy to invest in their regions where it is needed most.

Benefits for Public Transport

25. In order to meet the Government's aim of carbon neutrality by 2050, increasing both investment of and usage in public transport will be key. We suggest a combination of **corporate and personal tax incentives** (through NIC for example) for investing in infrastructure that encourages the use of public or sustainable transport.

A Fair and Transparent Tax System

Tax Relief for Capex

26. **Simplification of the current Capital Allowance** rules to address some of the complexity in determining what relief is available in complex infrastructure projects. Areas to focus on might include;

    - Entitlement
    - Availability of the relief / allowance
    - timing of relief; significant periods of construction before trade commencement for example as well as rates)

- ‘regimes within the regime’ and whether that could be further simplified; Integral features for example

Business Rates

27. The proposal for the **business rates regime** is welcomed by TIF; business rates often represent a significant proportion of the overall ‘tax’ contribution for the operators of UK infrastructure.

28. With the growth in ‘digital retail’ and the focus on retail that any review of the business rates regime is likely to adopt, the TIF network is keen to make sure that the consequences and opportunities for infrastructure feature appropriately in the review. TIF would be glad to be involved in any review on business rates to ensure that any reform does not disproportionality penalise the infrastructure sector and undermine the Government’s broader policy aims.

Fibre Tax

29. The treatment of fibre infrastructure within the business rates system – and the higher rateable value which full fibre networks attract – acts as a disincentive to companies considering investing in the sector.

30. TIF therefore support a **20-year extension to the 100% business rates relief for new fibre infrastructure** currently in place, to support the rollout of full fibre connectivity to homes and businesses. This would help unlock the investment needed to achieve the full-fibre 2025 target, whilst simultaneously contributing to productivity growth and the levelling up agenda.

Global Developments

31. Whilst some of our suggestions have been inspired or influenced by infrastructure incentives adopted by other territories, it is noted that any tax policies or incentives aimed towards the infrastructure sector should be made with a view to the **global tax environment.**

32. Investors into UK infrastructure operate increasingly globally, and therefore the UK needs to be comparative and competitive in the global economy.

33. TIF would welcome the opportunity to work with Government in considering global incentives offered for the infrastructure sector in the context of BEPs and BEPS 2.0.

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