The Infrastructure Forum

# The Infrastructure Forum's Taxation Working Group
# Boost Capital Spending to Grow the Economy
# Budget Submission 2024

**Introduction & Overview**

The Infrastructure Forum, through its Taxation Working Group, brings together a group of experts in investment, tax policy and infrastructure development. The Forum welcomes the Government's commitment to driving economic growth and the recognition that the development and renewal of critical national infrastructure is central to that growth agenda, while also helping to meet the UK's net zero and regional development goals.

The Working Group has been encouraged by the Government's acknowledgment of the importance of incentivizing investment through the UK's tax relief regime for capital expenditure. Committing to a permanent full expensing system for capital investment is a crucial step forward. It is also promising to hear that providing firms with clearer guidance on what qualifies for allowances is a priority. The Taxation Working Group has long observed that uncertainty around capital allowances and corporation tax rates poses a significant challenge. A firm commitment to a stable tax relief and corporation tax regime will be essential for enabling investment decisions and fostering certainty and we look forward to the release of the Business Tax Road Map at the Autumn Budget.

The Forum is however concerned that current spending is likely to be prioritised over capital investment, coupled with the cancellation of key infrastructure projects yet to be announced. This approach risks undermining the UK economy and productivity in the long term, a concern shared by many business groups. In a climate where raising tax revenue is difficult, it may be tempting to focus on immediate expenditures, but doing so will only worsen the UK's persistent issue of capital underinvestment.

To overcome this, the Government must seek strategies to attract private funding and leverage private finance to accelerate investments that boost productivity. Building a fair, resilient, and decarbonised economy necessitates investment from sovereign wealth and pension funds. Yet the absence of investment models, especially in the face of growing competition from the United States, the European Union and Asia, makes this challenging and investors have expressed concerns to the Forum about the UK's ability to draw in capital. The UK must be innovative with its tax system but it also must ensure it is creating increased simplicity, stability and certainty for business. It is even more important for a business to fully understand and be certain of the tax it will pay, than to provide it with tax reliefs.

Action is needed to enhance the UK's appeal to infrastructure investors. The Harrington Review received widespread support for its proposals designed to drive international investment into the UK, but its recommendations were not implemented by the previous government. Revisiting and acting on these proposals, in particular setting up of a new cross-government investment committee, building on the success of the OFI and empowering metro mayors and devolved administrations, would unlock a valuable resource contributed by the entire business community.

Innovative financing and 'off the shelf' models will also hold the key to addressing the chronic under investment in UK capital projects. Private finance models are highly complex to design, and therefore need to be used at scale and be repeatable. The Tideway model, developed nine years ago, has demonstrated its effectiveness in delivering on-time, on-budget infrastructure while attracting inward investment. The model should be more widely adopted.

**Tax Measures**

Below, the Forum sets out some areas of the taxation system which the Government may wish to consider as part of the upcoming Budget, focusing on encouraging capital investment into infrastructure. In each case the suggestions could be developed to align to a particular sector, region or Government 'Mission'. The Infrastructure Forum would welcome the opportunity to engage with the Government, HM Treasury and HM Revenue & Customs to explore and expand on any of these proposals.

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| Infrastructure Investment Trusts (IITs) | Jurisdictions around the world encourage investment in national infrastructure through Infrastructure Investment Trusts. They provide a tax-efficient means for pension funds and other investors to place international investment into infrastructure assets, and are used in the United States, China, Japan, India and Australia.<br><br>A UK infrastructure investment trust (UK IIT) would be an infrastructure investment company which, very broadly, simulates |

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| | (from a tax perspective) direct investment in UK infrastructure. This could form part of the National Wealth Fund initiative or be linked to Great British Energy investments. Many of the characteristics build on those already in place in the REIT regime, adapting for the existing tax treatment of infrastructure activities.<br><br>The IIT removes the application of double taxation that can arise when investing through a corporate structure and enables UK tax exempt investors and other overseas investors (e.g. sovereigns and pension funds) to benefit from their own tax status so that they can receive gross of tax returns from indirect investment.<br><br>As for REITs, IITs could be traded, be institutionally owned or have 70% ownership by institutional investors.<br><br>The Infrastructure Forum has produced a paper outlining how such a regime should be set up which can be viewed **here.** |
| A special UK tax regime | A special UK tax regime for infrastructure could be used to encourage investment in key sectors and could go some way towards replicating some of the tax benefits on offer in the United States under the IRA. This could result in increasing the local content of infrastructure project inputs, alongside raising the job creation benefits of such projects.<br><br>Such a system could broadly revolve around the following principles:<br><br>1. **Qualifying businesses** – The government should select the industries/sectors that are able to apply the regime. Such a list should target those industries where material investment is required, for example to help achieve net zero aspirations or to stimulate investment in new or evolving technologies. Some obvious examples include wind farms, solar PV, battery storage & EV charging infrastructure, hydrogen and digital infrastructure and related technologies.<br><br>2. **Regular review of the list** – The government should then commit to regularly review/update that list which would provide an element of control and would also allow for sectors/technologies to be added at a later date.<br><br>3. **Tax system** – The system could work similar to the UK qualifying asset holding company (QAHC) regime introduced in 2022. All companies are prima facie subject to existing UK |

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| | tax law, however, if they satisfy the qualifying criteria, they could make an election to apply for the special tax wrapper provisions. An election would then put those companies into a new section of tax legislation as opposed to having to rewrite all of the existing legislation.<br><br>The concept of a Qualifying Infrastructure Company ("QIC") already exists in the UK CIR rules. A special wrapper would expand on that definition and broaden the remit of the tax incentives applicable to QICs – see below. The oil and gas and life sciences sectors already benefit from sector specific initiatives. For example, the decarbonisation allowance within the Energy Profits Levy regime was explicitly designed to encourage investment in the decarbonisation of North Sea offshore platforms.<br><br>There are a number of special benefits which could be included within the tax wrapper:<br><br>- **Reduced corporation tax rate** – Companies within the regime could be subject to a reduced rate of CT (e.g.15%). This would need to be assessed in conjunction with the G20/OECD Pillar 2 initiative.<br>- **Capital allowances** – Capital allowances for QICs could be simplified, for example a single pool where all fixed asset expenditure qualifies for tax relief. Simplicity is key here (i.e. no uncertainty on long-life vs short-life, qualifying vs non-qualifying).<br>- **Tax relief for financing costs** – This could be simplified and made friendlier for QICs – i.e. full exclusion from CIR rules, simplification and limitation of anti-hybrid and other unhelpful provisions where tax avoidance clearly is not a feature or purpose of the financing.<br>- **Tax losses carried forward** – Remove the restrictions on the use of carry forward losses for QICs<br>- **Cash tax credits** – Introduce the ability to surrender a percentage of tax losses and/or capital allowances for a cash tax credit from HMRC. This should also apply to businesses that are 'pre-trading'.<br>- **Enhanced R&D or 'clean energy' incentives** – This could be linked to the cash tax credit above but could also take another form (e.g., a 30% super-deduction for 'green' expenditure). |

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| | - **Blanket exemption from UK WHT** – This could help to eliminate complexity and uncertainty, removing a potential barrier to international investment.<br>- **Other tax reliefs such as employment tax savings, Stamp Duty Land Tax and Business rates** – Reductions in those tax costs for QICs similar to what already exist for Investment Zones. |
| Full-Expensing | The introduction of permanent full expensing is a positive step for both the infrastructure sector and the wider economy. However, there remains significant potential for the Government to further incentivise investment in infrastructure by refining the regime. In its current form, many companies that invest in assets for the long term find full expensing not to be incentivising as it does not reduce the tax payments due. Introducing greater flexibility, such as the ability to spread the expense across multiple tax years, would direct the benefit to the companies that it is designed to incentivise. |
| Repeal of the Electricity Generator Levy | The Electricity Generator Levy (EGL) is overshadowing the renewables industry by creating an asymmetric risk profile where investors suffer if power prices fall but the state takes some of the upside if power prices go up.<br><br>The EGL has caused energy companies to re-assess or abandon green energy projects and redirect funds away from renewable investments and into other countries. It is important to remember that the UK is in an international competition for capital and the additional uncertainty caused by the presence or potential for windfall taxes raises the risk profile and costs for UK energy projects.<br><br>The windfall tax regimes directly contradict the Government's green energy targets. Furthermore, the EGL is unlikely to generate significant revenue for HM Treasury, and repealing it would come at almost no cost. Such a move would signal the UK's serious commitment to achieving net zero while demonstrating that this Government is business friendly. The repeal of EGL and a clear statement around the future fiscal policy direction would also signal to investors that further 'windfall taxes' are unlikely to be brought at very short notice, which would again provide much needed certainty for long-term projects. "In response to elevated energy prices in 2022, the previous government imposed the EGL. The EGL was set to capture revenues above a lower level compared to European counterparts (UK level set at £75/MWh; levels set by individual EU |

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| | Member States largely range from €105/MWh - €180MWh). The EGL also runs for a longer period of time (UK levy runs until 2028; most European levies have now expired). Windfall taxes like the EGL create asymmetric risk profiles that increase cost of capital, dampen investor sentiment and hamper efforts towards achieving "Clean Power by 2030". Aligning tax regimes with European standards will bolster investor confidence and facilitate renewable energy projects necessary for sustainable growth. With significant reduction in electricity pricing since the highs of 2022, emergency measures to protect customers, such as the Market Stabilisation Charge and the Energy Bill Relief Scheme, have been deemed no longer necessary. We would welcome the repeal of the EGL to reconfirm Labour's commitment to renewable electricity generation being core to achieving Clean Power by 2030" - (IRCP, Letter to the Chancellor, 2024) |
| Energy Profits Levy (EPL) | The removal of the investment allowance and reduction in the rate of capital allowances could be extremely costly to the UK, undermine Government's efforts to attract investment into other sectors and risk jobs in communities across the UK. |
| 'Tax Nothings' | As the Treasury and HMRC are well aware there are a number of categories of expenditure incurred in relation to large infrastructure projects where tax deductions have been declared to not be available to investors. This position has been clarified in a number of recent tax cases.<br><br>However this position puts the UK at a competitive disadvantage compared with international peers; it drives up the cost of projects, which in turn drives up the cost of the revenues that need to be charged to consumers, as well as introducing tax compliance risk and uncertainty which drives up the cost of funding – which also drives up the cost of revenues that need to be charged to consumers. It contributes to the cost differential between infrastructure projects in the UK versus our international peers.<br><br>Investors are simply looking for tax deductions for legitimate business costs, and certainty over those deductions that they can include in their modelling. The tax depreciation regime could be modernised and updated to accommodate this need, which will drive down the cost of the delivery of infrastructure. |
| Review the UK's Tax Credit System and | The UK should learn from the unprecedented certainty and policy stability that the Inflation Reduction Act (IRA) provided in the United |

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| allow transferability | States. In particular the UK system should look at enabling a tax credit trading mechanism to be introduced allowing transferability between businesses.<br><br>Most of the tax credits included within the IRA are available from 2023-32, providing certainty and predictability and coinciding with the critical decade for climate action.<br><br>Additionally, many of the tax credits introduced under the IRA are designed to incentivise the localisation of supply chains, and offer bonuses for projects built in energy communities or utilising a specified percentage of domestic content in their construction. These incentives effectively lower the cost of domestic production, enabling manufacturers to compete globally. Similar tax incentives would be highly beneficial for the UK, particularly for a Government focused on transitioning workers from the oil and gas sectors to manufacturing roles within the renewable energy industry. Such measures would reduce the UK's reliance on foreign manufacturers, secure jobs, and stimulate economic growth in key regions. |
| Deductible Interest Expense | Interest expense on shareholder loans should be tax deductible in full over the life of the project.<br><br>This may need to be subject to transfer pricing controls. The existing Public Benefit Infrastructure Exemption could be revised to reflect this or other exemptions be given to infrastructure projects versus the rules of the Corporation Interest Restriction (CIR) mechanism which can result in unutilised CIR . |
| Tax-exempt municipal bonds | The UK could move to a system of tax-exempt municipal bonds like the USA. Local authorities and maybe private projects (in the USA called private activity bonds but allowed for under IRS tax code), can issue debt/ bonds at a reduced rate of interest as the interest received by the investors is tax-free. Though a general tax-exempt municipal bonds would be preferred, they could be tailored to “green bonds” to further accelerate the decarbonisation effort via infrastructure projects. |