

Pandemic shift to home working could create UK tax crisis

June 22 2021



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The shift to home working brought about by the pandemic could cost the UK economy up to £32 billion a year in lost personal income tax.

Highly paid workers who live abroad but work in the UK will pay their [income tax](#) in their country of residence, rather than to HMRC—which researchers say could cost billions each year.

This new mobility of the workforce can also affect where corporate income tax is paid and value created, as well as VAT and where goods and services are purchased.

Professor Rita de la Feria, Chair in Tax Law in the University of Leeds' School of Law, co-led the new research with Dr. Giorgia Maffini, Tax Policy expert at PWC, London.

Their paper, *The Impact of Digitalisation on Personal Income Taxes*, is published in *British Tax Review*.

Professor de la Feria said, "The acceleration of digitalisation and the spread of remote working internationally as a result of the pandemic poses very significant challenges to personal income taxes.

"New mobile workers are likely to be at top of the income distribution, and even a small number could result in significant revenue losses to the UK, of between £6 billion and £32 billion.

"The likely effect will be a tightening of employment rules, introduction of new tax avoidance rules, and increased personal income taxes competition with countries fighting to attract new mobile workers.

"The impact of these labor changes is likely to be more significant in countries like the UK, which relies heavily on income tax—especially from a small number of high-income—and now potentially mobile—taxpayers.

"How big these challenges are and how countries will react to them will

be a key issue in the coming years."

Total income tax paid in the UK in 2018-19 was £187 billion, with 35% paid by the 4.2 million higher rate taxpayers, and 31% from additional rate taxpayers.

An estimated 31% of UK jobs can be carried out remotely—of which an as-yet unknown share will be internationally mobile.

Assuming only higher and additional rate taxpayers are internationally mobile, the researchers say the potential loss in income tax would be between 2% and 10% of the total revenue—between £3.8 billion and £ billion a year.

Including Social Security contribution losses of between £2.7 billion and £13 billion a year, the total [income](#) tax revenue loss would amount to between £6.5 billion and £32.5 billion a year.

The researchers say recent global tax discussions have focused on solving challenges to corporation tax posed by digitalization, but the pandemic-led shift to remote working could pose an even bigger crisis.

Professor de la Feria said, "This crisis has the potential for much wider economic and societal ramifications than the challenges to corporation tax. The challenges of adapting our tax systems to a digital economy are far from over; indeed, they have just started."

More information: Rita de la Feria et al, The Impact of Digitalisation on Personal Income Taxes, *SSRN Electronic Journal* (2021). [DOI: 10.2139/ssrn.3835095](https://doi.org/10.2139/ssrn.3835095)

Provided by University of Leeds

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