

10 September 2024



Autumn budget spending review 2024 – representation from ICAS



Autumn Budget 2024 / Spending Review – stakeholder representation from ICAS

1. Background

ICAS is a global, professional membership organisation and business network for Chartered Accountants (CAs). We represent over 24,000 members across the UK and globally, with almost half of our membership based outside of Scotland. We are the oldest professional accountancy body in the world, founded in 1854 by Royal Charter. We're an educator, regulator, examiner, and a professional awarding body. We're proud of the difference we can make to a profession that's transforming to meet the urgent environmental and social challenges of our changing world. CAs play a vital role in our society and economy. The CA designation remains a badge of quality and trust, shown by the fact that CAs hold senior positions in 83% of FTSE companies. Our members and students go beyond the numbers; they possess an ethical mindset, technical skills, professional knowledge, and practical experience that positions them as the business leaders of today and the future.

We welcome the opportunity to respond to this consultation process on the budget scheduled for 30 October 2024 and have commented on several areas of policy that we feel need to be highlighted and prioritised.

2. Supporting the delivery of net zero through the tax system

Tax can play a critical part in the package of measures needed to deliver net zero and can be an effective way of driving changes in behaviour. It has been used as a mechanism to discourage certain types of environmentally damaging behaviour and encourage green investment. Landfill Tax is a clear example of the 'stick' approach; on the carrot side there have been various capital allowances for investment in environmentally friendly plant and machinery.

It would be helpful if the tax system did not encourage or facilitate behaviour and business practices which are at odds with environmental goals. For example, the VAT system can currently disincentivise refurbishment and retrofitting of existing buildings, even though from an environmental perspective, it is often preferable to refurbish, rather than demolishing and building something new.

ICAS would like to see the government publish an environmental tax roadmap or strategy. Without one, individuals and businesses are likely to find it difficult to plan ahead for the tax changes and costs which will arise as part of the move to net zero. It may also be difficult for the government to ensure that tax policy is closely aligned with the development of new green technologies and supporting infrastructure unless it sets a clear, strategic direction and develops guidance for businesses.

Employment taxes

Since the Covid pandemic, hybrid working practices have become normalised and can contribute to greener, and more sustainable models of working. In addition, hybrid working can aid productivity, contribute to family-friendly lifestyles and

enhance employee wellbeing. These benefits are now further complemented by the right of employees to request flexible working.

The government could consider taxing less environmentally friendly journeys and modes of travel (whether business or private) by introducing green travel incentives. By enabling access to longer term tax breaks for company EV users, revised incentives for employees to purchase greener emission vehicles through their employer, and subsidised travel for commuters who choose trains and buses to get to work, the government could speed up the use of sustainable travel methods by making them more affordable. 'Bike to work' schemes could expand the current tax relief to encourage people to use bicycles and e-bikes as a general form of transport, rather than only focusing on having to use it to commute to work, especially given the increasingly hybrid nature of today's working culture in many sectors.

Tax information and Impact Notices (TIINs)

We would like to see future TIINs drawn up to include forecasts of the anticipated environmental impact of introducing new or adjusted tax measures, realistic administrative and financial cost burdens and details of who precisely might be impacted (e.g. employers, individuals, businesses etc). We also wish to see the TIINs include a statement on how the measure is/is not contributing to simplifying the tax system.

Getting the law right and paying tax

Tax contributions are a key part of the positive social and economic impact made by businesses. They help the communities in which they operate to deliver valuable public services like education, healthcare, roads, policing and more.

The government should embed and encourage the accepted principle of us all paying the right tax at the right time. This approach requires well drafted tax legislation that is clear and unambiguous in setting out parliament's intentions. We must have simpler, better legislation because it is the law passed by parliament that the courts apply and determines the tax HMRC can collect.

3. Developing effective tax policy and legislation

We are pleased that the government has committed to having a single annual fiscal event. However, on its own, this will not be enough to deliver good tax policy outcomes. We support the consultation process originally set out in the 2011 "Tax Consultation Framework" (restated in the December 2017 policy paper "The new Budget timetable and the tax policy making process"). We believe that this five-stage approach to consultation is effective when followed in full:

- Stage 1: Setting out objectives and identifying options
- Stage 2: Determining the best option and developing a framework for implementation including detailed policy design.
- Stage 3: Drafting legislation to effect the proposed change
- Stage 4: Implementing and monitoring the change
- Stage 5: Reviewing and evaluating the change

We would like the government to commit to all five stages and to allow adequate time (at least 12 weeks) for responses to consultations, as the default approach. Omitting Stages 1 and 2 deprives the government and HMRC of valuable stakeholder input in clarifying the objectives, identifying the options for taking them forward and developing an implementation framework. Omitting Stages 4 or 5 removes the opportunity to consider whether the policy has achieved its aims and to identify useful lessons for future policy development.

Transparent and open discussion of proposals between government, HMRC, professional bodies and other stakeholders helps to make sure that the best options for implementing government policies are identified, operational practicalities can be addressed, and the final legislation is workable. Following a robust consultation process reduces the risk of producing poorly targeted, flawed legislation with unintended consequences and a potential increase in administrative burdens for little overall benefit.

4. Resourcing HMRC

HMRC urgently needs more resources to improve its performance in delivering user-friendly systems to help taxpayers meet their tax obligations and allow HMRC to meet the standards and values included in their HMRC Charter. Customer service levels must be improved so that basic tax administration works properly for everyone who needs to contact HMRC. Many of us have heard about or experienced serious delays in customer support from HMRC. It can mean that people end up paying the wrong tax, or no tax at all.

Our members see these problems every day, as they advise their clients on their tax affairs. We know that HMRC wants people and businesses to 'go digital' but making tax digital (MTD) can only effectively happen if HMRC is resourced to invest in this transformation as well as the expansion of HMRC's digital services more generally. It's vital that agents can conduct routine tasks for their clients online, as well as being able to view the same details as their clients on their tax affairs. Until this happens, we can't abandon people by cutting phone services for either taxpayers or their agent. This requires an injection of much needed resources to make the service fit for purpose. The last government made a £51million investment in the service earlier in the spring, but this will barely scratch the surface of what is needed to make real improvements to the service.

We, and other professional bodies, have repeatedly called for improvements to HMRC's service levels and systems. We believe that HMRC urgently needs additional funds to enable it to deliver its day-to-day business as well as develop future fit services for the public and for businesses.

5. Corporation Tax

ICAS believes that the government needs to make sure the UK is a competitive and attractive place to locate and invest in, particularly, post-Brexit. A key part of this should be a stable and consistent tax system, which allows both corporates and individuals to plan for the long term with certainty. Tax should certainly not be a

disincentive – tax administrative systems must work and HMRC needs to provide an effective service to all businesses, large and small.

Our members tell us that companies seek certainty and stability in Corporation Tax rates and take account of those when making investment decisions. This has an impact on the strength of the overall UK economy. We feel that the publication of a business tax road map, combined with clarity over the capital allowances and Corporation Tax rates, will assist companies when making their investment decisions and help plan their cash flows at a time of economic uncertainty.

6. Pensions

In the UK, pension auto-enrolment has increased both the number of people saving and the amount saved. Since the policy was introduced in 2012, over eleven million people have newly enrolled into a workplace pension. In 2021, people saved £114.6 billion into their pensions - a real terms increase of £32.9 billion compared to 2012. However, we are still not saving enough, and the cost-of-living crisis has further impacted on the amount we need in retirement. The Pensions and Lifetime Savings Association updated its retirement living standards in February 2024 showing the expenditure required to achieve a given living standard.

- For a minimum standard £14,400 is needed for a single person and £22,400 for a couple.
- For a moderate standard £31,300 is needed for a single person and £43,100 for a couple.
- For a comfortable standard £43,100 is needed for a single person and £59,000 for a couple.

UK government policy on pensions needs to be set with the long-term in mind. It should seek to achieve long-term stability for the UK pension system and cross-party consensus on this.

We support the Exempt, Exempt, Tax (EET) approach to pension taxation and advocate for a long-term approach to the setting of pension tax allowances, including the uprating of allowances by inflation. The UK's approach to pension taxation should:

- Include an approach to tax allowances which simplifies their application to both Defined Benefit (DB) pensions and Defined Contribution (DC) savings and doesn't disadvantage DC saving relative to DB pensions.
- Incentivise employers to contribute to employee pensions and incentivise employees and the self-employed to save for retirement.
- Consider existing employment arrangements to avoid creating additional complexity which can be exploited by unscrupulous financial advisers.

We support a robust but proportionate legal and regulatory environment which encourages innovation in the pensions industry; thus, enabling the industry, scheme trustees and other fiduciaries to focus on providing pension savers with good outcomes in retirement. To achieve this, policymakers and regulators must be mindful of the differences between DB and DC, recognising that in future DC is going to be the pension saving option for the majority of those working in the private sector.



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