House of Commons

Treasury Committee

Inquiry into the March 2020 Budget

Evidence from ICAS

16 March 2020

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Introduction

1. The ICAS Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community, which consists of Chartered Accountants and ICAS Tax Professionals working across the UK and beyond, and it does this with the active input and support of over 60 board and committee members.

2. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and we represent over 22,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.

3. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members in the many complex issues and decisions involved in tax and financial system design, and to point out operational practicalities.

4. As a matter of policy, ICAS does not comment on the rates of any tax; consequently, we have not commented on matters such as the corporation tax rate, the increased rate of Structures and Buildings Allowance, the increase in Research and Development Credit from 12 to 13%, or the changes to VAT rates on e-reading and sanitary products.

5. ICAS welcomes the opportunity to give its views and to respond to this inquiry into the March 2020 Budget tax measures.

6. We would be happy to discuss any of our comments below in further detail if wished.

Analysis of budget tax measures

7. The Treasury Committee has asked us to analyse the Budget measures in relation to six principles for tax policy: that it should be fair, support growth, encourage competition, provide certainty and stability, be practical, and be coherent. Our initial assessment of how Budget 2020's proposed tax measures match up to the principles is set out below.

Measure	**Traffic light**
Coronavirus assistance – Time To Pay arrangements	Green
Entrepreneurs' Relief	Amber
IR 35	Amber
Pensions tax - call for evidence re tax relief for lower earners	Green
Pensions tax – raising of the tapered annual allowance thresholds	Amber
Changes to CGT payment and reporting requirements for residential property disposals	Red
Postponed VAT accounting	Green
Evaluation of the introduction of Making Tax Digital for VAT	Green
Digital Services Tax	Amber
Large business notification	Amber
Additional compliance resources for HMRC	Green

Measure	Traffic light
Raising standards for tax advice	Green
Review the UK funds regime	Green

8. As noted above, this is our initial assessment of the measures announced in the Budget on 11 March 2020. Our assessment may be refined when we have studied the proposed measures and the Finance Bill in more detail.

General comments

9. There has been considerable uncertainty in recent years, for businesses and individuals, following the outcome of the EU referendum and the prolonged Brexit process. The recent election of a new Government has ended one phase of Brexit, with the UK formally leaving the EU at the end of January 2020. However, it has not ended uncertainty as no agreement has yet been reached on the precise nature of UK's future relationship with the EU. Added to this are the immediate challenges of coronavirus – the new Chancellor had plenty to contend with.

10. The Chancellor's speech had significant commitments for additional spending to address the costs of coronavirus and, longer term, on infrastructure across the whole of the UK.

11. Spending needs to be paid for, and we note that the government has committed to not increasing the main revenue-raising taxes. The result will be tax changes at the edges that lack transparency - and increasingly complex and lengthy tax legislation, which makes it harder for taxpayers to understand and comply with their tax obligations. Some honesty and transparency around the need to pay for public services would be helpful.

12. We believe there should be a public discussion exploring the role of tax in supporting public services and contributing to the common good. The government should facilitate this discussion through greater transparency about the link between raising tax revenues and paying for improved public services. Media reporting has concentrated on the need for taxes to be paid by large businesses and wealthy individuals, but the public debate should also cover how, and to what extent, everyone should contribute.

Coherence of the overall tax system

13. We recognise that this Budget has had to deal with some urgent short term issues and we welcome the measures outlined to deal with the coronavirus. However, in the autumn we would like to see a more coherent approach to tax policy and an indication of the government's long term thinking on the development of the tax system.

14. The 2010 'Corporate tax roadmap' should be taken as a model for setting tax policy for the future. It set out the government's long term approach to the corporate tax regime and for several years there was clarity and consistency around the direction of corporate tax policy. A new roadmap for corporate tax is long overdue.

15. However, clear tax strategies also need to be developed for other parts of the tax system – and to address long term challenges. These include:
    - the growth of the gig economy and the workplace of the future
    - removing incentives for tax driven incorporations
    - making devolved taxes work effectively, given that they interact with UK taxes
    - strategic direction for capital taxes and their interaction with taxes on income
    - VAT in a post-Brexit world.

16. Clearly there were good reasons for having a Budget in March this year. However, going forward the Autumn Budget and associated timetable for consultation, draft legislation and Finance Bill should be retained. ICAS supports the principles set out in the 2017 policy paper 'The new Budget timetable and the tax policy making process' which were designed to increase predictability, stability and simplicity in the UK tax system and to address concerns that tax policy making was often piecemeal and reactive. A single autumn fiscal event is also essential to support the devolved nations in making effective tax policy.

Comments on specific measures

Coronavirus assistance – Time To Pay arrangements

17. We welcome the measures to address potential cash flow issues that may arise from the impact of coronavirus. Perhaps one of the most beneficial will be access to HMRC's Time to Pay arrangements, however the effectiveness of this will very much depend on the flexibility and policy approach which HMRC will apply to requests.

18. Time To Pay arrangements can be helpful and, of course, HMRC is in many instances in a difficult position - it is tasked with collecting outstanding tax as promptly as possible. Generally, HMRC officers are considerate of taxpayer difficulties in paying but it would be of assistance to these taxpayers if there was both earlier intervention and support, to raise awareness of penalty exposure rather than just collect tax, and greater coordination with agents. This would help, in particular, those traders who do not appreciate the cumulative cost of VAT non-compliance, and those traders who have cash flow difficulties but do not understand the specifics of negotiating time-to-pay arrangements across both VAT and PAYE.

Entrepreneurs' Relief

19. 'Reform to Entrepreneurs' Relief (ER) was widely anticipated as a follow-up to the Conservative manifesto promise to review and reform this relief. We note that a recent National Audit Office report highlighted the £2.2 billion cost to the relief in 2018-19, coupled with its limited impact on decision making, adding further likelihood to the idea that reform was waiting in the wings.

20. The measure announced in the Budget, and effective from Budget day, reduces the ER lifetime limit from £10 million to £1 million. This is billed as leaving 80% of businesses unaffected but for those affected it will have a major impact on the tax cost of business disposal.

IR 35

21. As previously announced, the IR35 private sector rules designed to collect the 13.8% employer's National Insurance Contributions on contractors should bring in significant amounts of NIC to the government but the other side of this is that it will add to costs of labour and bring uncertainty over who will bear the economic burden.

22. In the longer term, the cost of employer NICs needs to be addressed, preferably alongside consideration of the likely consequences of increased use of AI and robotics. Currently, the cost of employer NICs is key to exploitative practices in the gig economy and to illegal modern slavery; additional resources should be made available for tackling these. In future AI could reduce the number of workers required, with serious consequences both for tax revenues and wider society. We recommend that a Royal Commission should be appointed to consider how to address these issues.

Pensions tax

23. We welcome the 'call for evidence' on how to address the different outcomes for lower earners, depending on whether their pension schemes use the relief at source or net pay method of tax relief. Also, in relation to lower earners, we believe the call should set out proposals to address the impact of the elements of income tax devolved to Scotland and to Wales on pension administration.

24. We recognise that the changes to the annual allowance taper will help to address the difficulties caused by the current lower thresholds for people delivering public services, particularly senior doctors in the NHS. However, this is a sticking plaster - a pragmatic rather than principles-based approach towards pension tax relief. More broadly, ICAS is of the view that any overhaul of pension tax relief by government should be compatible with its overall objectives for the UK's pension system. Short-term tinkering, generally speaking, has both unintended and potentially long-term consequences for pension saving (and savers) so if pension tax relief is to be reformed, the reforms need to be enduring.

Changes to CGT payment and reporting requirements for residential property disposals

25. New reporting and payment requirements are due to commence from April 2020. This is not a new measure; the government has clearly decided to proceed with it, in spite of the numerous practical issues raised in consultation responses. However, communications to those who will be affected have been delayed by recent political events, particularly the December election. We are therefore concerned that implementation from April is unlikely to comply with the important principle of being a responsibility which is recognised by those who need to comply. There have been very limited advance communications from HMRC regarding the change and our experience with tax agents and their clients is that there is very little awareness of the new requirements. Taxpayers who are generally compliant and would want to comply with the rules if they were aware of them, are likely to end up suffering unexpected penalties, due to the failure to communicate the new rules in a timely and effective way. In our view, it has a 'red' category in terms of taxpayer awareness and hence prospective compliance.

Postponed VAT accounting

26. ICAS welcomes the announcement that Postponed VAT accounting (from 1 January 2021) is to change the time when import VAT is due to HMRC, providing an important cash flow advantage to businesses across the country that are integrated in international supply chains, as they adapt to the UK's position as an independent trading nation.

Evaluation of the introduction of Making Tax Digital for VAT

27. The government has said that it will publish an evaluation of the introduction of Making Tax Digital for VAT, along with related research, which we welcome. We believe that there are lessons to be learnt before extending the MTD initiative (which in broad principle we support).

Digital Services Tax

28. The Budget confirmed that the introduction of the UK Digital Services Tax will go ahead from 1 April 2020. It appears that implementation will be broadly along the lines of the draft legislation published in July 2019. The government has noted that it will continue to consider how the legislation applies to marketplace delivery fees.

29. We welcome the government's confirmation that it remains committed to an international solution to the challenges presented by digitalisation for the corporate tax system. Unilateral measures impose additional compliance burdens and are likely to give rise to double taxation. It is therefore helpful that the government has repeated its pledge to repeal DST once an appropriate global solution is in place. The OECD is working towards agreement of a solution in 2020; consideration therefore needs to be given to facilitating a smooth transition and minimising the administrative burden for businesses affected both by the DST and any internationally agreed new regime.

Large business notification

30. From April 2021 large businesses will be required to notify HMRC when they take a tax position which HMRC is likely to challenge. Very little information has been provided on the details, although the government states that this measure will draw on international accounting standards which many large businesses already follow.

31. Many large businesses already have a collaborative relationship with HMRC through their CCMs. It is therefore possible that this measure is targeted at a small number of businesses which HMRC believes present a problem. We welcome the government's intention to consult on the details of the notification process. It will be important to ensure that businesses which already work closely with their CCMs and adopt a transparent approach to their relationship with HMRC are not penalised or subjected to additional administrative burdens.

Additional compliance resources for HMRC

32. We note that there are to be additional compliance resources for HMRC, which we welcome. Beyond this, we believe that a well-resourced and efficient tax authority is essential for the smooth running of tax administration. Reductions in HMRC headcount and diversion of resources to deal with Brexit have caused problems for agents and taxpayers, particularly businesses and individuals who are not large enough or wealthy enough to have an HMRC Customer Compliance Manager. We await further details of what the additional resources will be used for to raise the additional £4.4 billion in additional taxes between now and 2024-25, but providing adequate HMRC support and service levels for all taxpayers and agents will reduce compliance risks and improve voluntary compliance.

Raising standards for tax advice

33. We welcome the Budget announcement that the government intends to call for evidence on raising standards for tax advice. The Standards team at ICAS look forward to contributing to this important discussion and debate – at present anyone can give tax advice. Taxpayers should be able to rely on their tax adviser, and know that they are qualified, competent and regulated.

Review the UK funds regime

34. We welcome and commend the announcement to review the UK funds regime with an objective to make the UK a more attractive location. Making the UK more attractive as a place to do business is an important priority for a number of the assessment criteria: Support to growth, encouraging competition, providing certainty, providing stability and potentially the coherence of the system.